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XVII

Canada. Co-operative, Royal Commission

ROYAL COMMISSION
ON
CO-OPERATIVES

1945

PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. IX

PLACE Montreal, Que.

DATE February 19,20,21,22, 1945

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sent to J.D. Vaughan Esq.

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T. S. HUBBARD
OFFICIAL REPORTER

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ROYAL COMMISSION ON CO-OPERATIVES

Montreal, Quebec, February 19, 20, 21, 22, 1945.

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ROYAL COMMISSION ON COOPERATIVES

The Commission appointed to inquire into the present position of cooperatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Montreal, Quebec, on Monday, February 19, 1945, with sittings continuing on February 20 & 21.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON)	
G. A. ELLIOTT	(
J. M. NADEAU)	Commissioners
J. J. VAUGHAN	(

Eugene T. Parker, K.C.	Counsel
Roger Brossard, K.C.	Associate Counsel

Major H. D. Woods)	Associate
J. A. Chapdelaine)	Registrars

Colonel G. W. Ross	Executive Secretary
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APPEARANCES:

Senator Elie Beaugerard	La Cooperative Federee de Quebec; farmers' local co-operatives; United Fishermen of Gaspe Peninsula; L'Alliance Famiale de Consommation.
John W. Long,	Montreal Milk Producers Cooperative Association
J.P. Verschelden	Farm mutual companies
Jacques Perrault	Seven mutual life assurance societies; L'Union Regionale des Caisses Populaires
Guy Vanier	Caisse Nationale d'Economie
Robert Perron	Chambre de Commerce, Montreal
Hector Vezeau	Les Cites-Jardins du Quebec
R. H. Milliken, K.C.	Saskatchewan Cooperatives.
G. S. Thorvaldson, K.C.	Income Tax Payers Assn.
W. Howard, K.C.	Private Grain Interests
G. A. Mann, K.C.) A. Leslie Ham)	Joint stock insurers; fire, automobile and casualty business.

Montreal, Quebec,
Monday, February 19, 1945

The Commission met at 10.30 a.m., Mr. Justice McDougall presiding.

THE CHAIRMAN: Il y a lieu, tout d'abord, de preciser les objets de la Commission Royale d'Enquete sur les Cooperatives. Aux termes d'un arrete ministeriel 8725 du 16 novembre 1944, nous sommes charges de faire enquete

- (a) sur la situation actuelle des cooperatives, en ce qui concerne l'application, a ces cooperatives, de la loi de l'impot de guerre sur le revenu et de la loi de 1940 sur la taxation des surplus de benefices, et
- (b) sur l'organisation et les methodes et operations commerciales des dites cooperatives, ainsi que sur toute autre matiere pertinente a la question de l'application des mesures d'impot sur le revenu et de surplus de benefices, et
- (c) sur la situation comparative, a l'egard de l'imposition, sous le regime des dites lois, des personnes exerçant un genre quelconque de commerce et concurrence directe avec les cooperatives,

et de faire rapport, dans la mesure ou la chose peut se faire commodement, sur tous les faits qui leur paraissent pertinents, afin de determiner, s'il y a lieu, ce qui, dans l'interet public, constituerait une base juste, raisonnable et equitable pour l'application de la Loi de l'impot de guerre sur le revenu et de la loi de 1940 sur la taxation des surplus de benefices, aux cooperatives et aux personnes autres que les cooperatives, a l'egard des methodes commerciales analogues aux methodes cooperatives, comme la remise de sommes generalement appelees ristourne, et de formuler les recommandations qu'ils croient justifiees et dans l'interet public quant a la modification des lois existantes.

Afin d'aider efficacement au travail de la Commission, il est essentiel de s'en tenir exactement aux sujets precises

dans l'arrete ministeriel que je viens de citer. Je suis sur que les avocats qui comparaitront devant la Commission voudront bien nous offrir toute leur collaboration.

Je n'ai pas besoin de dire que nous avons pas a faire le proces d'aucun cas particulier. Nous n'avons pas non plus a etablir de reglementation relative aux impots que doivent payers toutes personnes, societes, associations ou organisations qu'elles soient... Notre devoir se borne a recueillir les faits qui nous permettront, je l'espere, de presenter un rapport aussi precis que possible laissant aux autorites competentes le soin de donner suite aux recommandations que nous jugerons a propos de faire.

Les memoires qui nous ont ete presentes ont ete inscrits dans nos registres en l'ordre meme de leur reception. Dans la mesure du possible nous devons nous en tenir a cet ordre de preseeance. Nous sommes maintenant prêts a entendre ceux qui desirent comparaitre devant la Commission. Les avocats ou les interesses aux-memes voudront bien mentionner leur presence et faire toutes observations ou demandes qu'ils peuvent juger utiles.

Permettez moi de vous presenter mes collegues, MM. Arnason, Elliott, Nadeau et Vaughan.

Connaissant bien la courtoisie traditionnelle de votre province, j'ose esperer qu'en autant que possible, vous essaieriez de vous servir de la langue anglaise parce que trois de mes collegues ne parlent pas francais.

SENATOR ELIE BEAUREGARD: May it please the Commission, I appear for La Cooperative Federee de Quebec, which is a federation of farmers' cooperatives and represents about four hundred local farmers' cooperatives out of a total of six

hundred in the province. I represent also the United Fishermen of the Peninsula of Gaspe, called Les Pecheurs Unis.

May it please the Commission, I had declared when I filed my appearance that I would appreciate proceeding on the twentieth of this month. I had no knowledge at the time of the way the Commission would proceed to establish a tour de role on the hearing, but if this would be acceptable to the Commission it would be appreciated.

THE CHAIRMAN: Once the appearances are in, counsel may consult Mr. Parker as to the list of cases and their arrangement.

MR. JOHN W. LONG: Mr. Chairman and gentlemen, I appear for the Montreal Milk Producers Cooperative Agricultural Association.

MR. J. P. VERSCHELDEN: I appear for the farm mutual companies, and I would be interested to be heard on the twenty-first on account of my witnesses coming to-morrow afternoon.

THE CHAIRMAN: You might discuss that with counsel afterwards.

MR. VERSCHELDEN: I gather from Mr. Parker there is some question as to whether we shall be heard here or perhaps elsewhere, in Ottawa.

THE CHAIRMAN: Quite so.

MR. JACQUES PERRAULT: I appear before this honourable commission for the seven mutual life assurance societies, and also for L'Union Regionale des Caisses Populaires.

MR. GUY VANIER: I appear for Caisse Nationale d'Economie.

MR. ROBERT PERRON: I appear for La Chambre de Commerce de Montreal.

MR. PARKER: I suggest, Mr. Chairman, that the Commission take about ten minutes' recess, so that I may confer with counsel with a view to arranging the order of procedure.

THE CHAIRMAN: I think possibly out of deference to Mr. Brossard, Mr. Parker, if it were possible to proceed with one or two English cases so that he may become familiar with the manner of proceeding before the Commission, it would be helpful.

MR. PARKER: That is what I have in mind. Apparently there are some five or six cases to be taken in English, and if counsel and those supporting them are present and ready to proceed, we will take those up to-day.

(After a brief recess):

MR. PARKER: Mr. Chairman, I have made some little progress, to this extent: that I think we are ready to proceed immediately with one or two of the English cases. It seems to suit the convenience of everyone, if we make a note of this, that numbers seven, nine and ten on the blue sheet (La Cooperative Federee de Quebec; L'Alliance des Cooperatives de Consommation; Pecheurs Unis de Quebec) which are being supported by Senator Beauregard, will be proceeded with to-morrow morning, and they will follow in that order. We can perhaps begin now with the Canadian Builders Supply Association, No. 2 on the blue sheet, brief No. 98; and if Mr. Long will be ready I propose to take the Montreal Milk Producers Cooperative Agricultural Association. Mr. Gould, I believe, is present representing the Canadian Builders Supply Association.

R. W. GOULD
General Secretary,
Canadian Builders Supply
Association, having been
duly sworn, testified as
follows:

BY MR. PARKER:

Q. Mr. Gould, did you personally prepare the brief which you are about to present? A. Yes, I did.

Q. In what capacity? A. I am the general secretary of the Association.

Q. How long have you been secretary? A. Since the inception of the Association some four years ago.

Q. Just what is the Association? How is it formed?

A. The Association is composed of the wholesale building supply dealers across Canada. Those are the wholesalers who supply all types of building materials, cement, brick, tile, roofing, lath, and everything that goes into the building of a house.

Q. The building of a house as distinguished from a big office building? A. No; that is covered as well -- all types of buildings.

Q. I suppose that adds up to quite a large number of firms who are members? A. Yes. We have about eighty of the largest firms across Canada, from Vancouver on the Pacific coast to Sydney.

Q. It is just a loose federation -- just an association? A. Yes.

Q. It is not incorporated? A. Application for incorporation has been made.

Q. Where? A. In Ottawa.

Q. By letters patent? A. By letters patent.

Q. But they have not been issued as yet? A. They have not been issued, simply because, as the association was formed some four years ago it was felt that they would operate for a few years more directly and specifically to know what they wanted in their charter.

Q. Of these eighty odd firms, what I think the Commission would like to know is to what extent they instructed you and to what extent this brief represents their views; or

are they your own personal views?

A. By resolution at a general convention held in November in the city of Montreal.

Q. At a convention held in November of last year in this city? A. Yes.

Q. How many of the members were present, approximately?
A. I would say between fifty and sixty.

Q. Was this question discussed which is dealt with in your brief? A. Yes, this question had been discussed at the previous convention a year before, held in Toronto.

Q. That is, the general subject of taxation? A. And a committee appointed to consider the question; so it was on the instructions of that committee.

Q. And after you prepared it -- ? A. It was submitted to that committee and to the membership in general.

Q. Consisting of how many-- the committee ? A. Five on the committee.

Q. And they approved? A. They approved.

Q. And it was then submitted to the entire membership?

A. To the entire membership from coast to coast.

Q. How -- by letter? A. By letter.

Q. Were any replies received? A. Yes, quite a large number, approving of it.

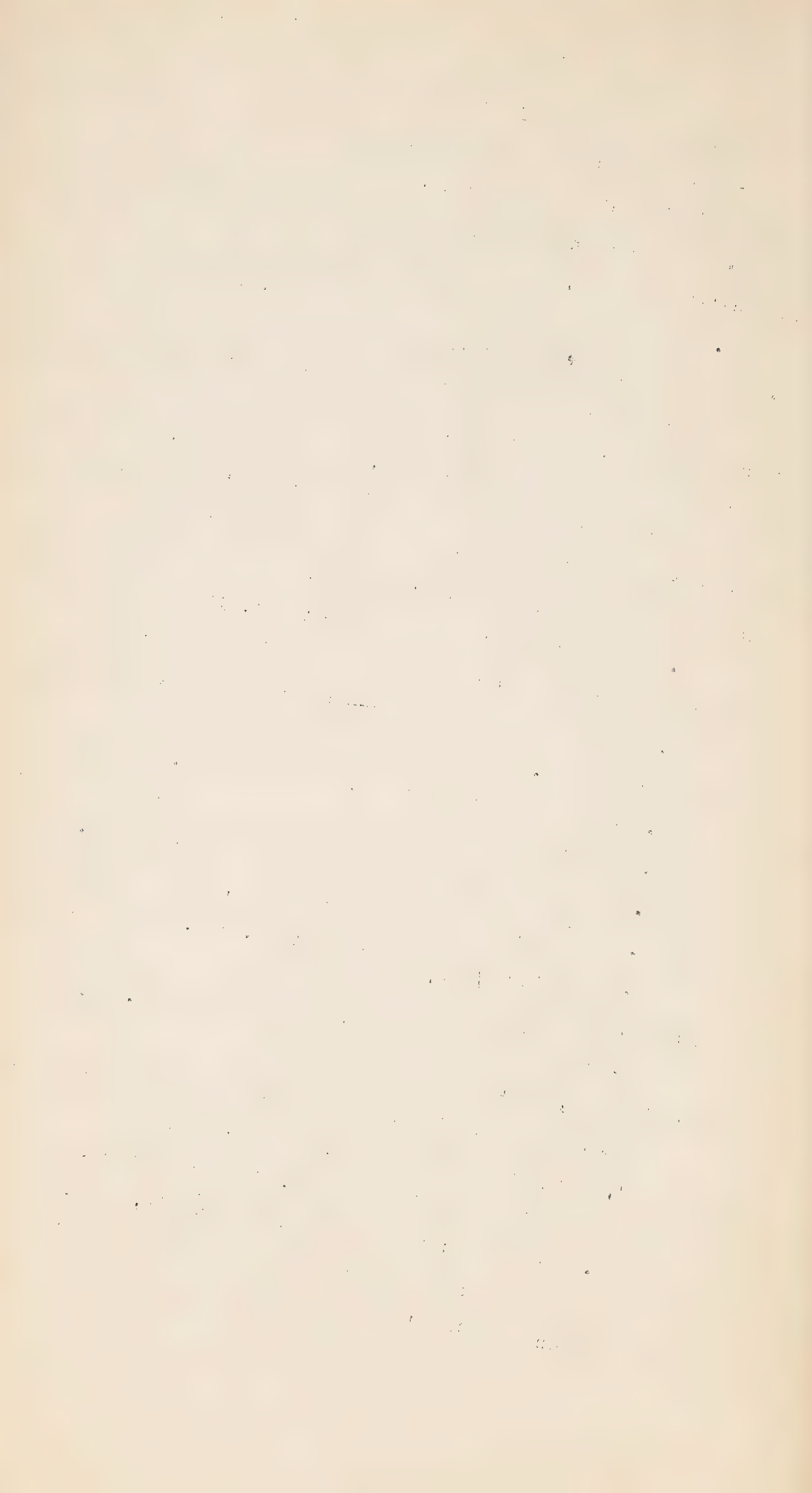
Q. Were there any that did not approve? A. No, none whatsoever, sir.

Q. So that is the basis on which this document was prepared, and you say it represents the considered views of those members of that Association? A. That is correct.

Q. All right; perhaps you will read it, then.

THE WITNESS: Mr. Chairman and members of the Commission;

"When is a profit not a profit? This to use a vulgarism



born of the Radio is the sixty-four dollar question before this Royal Commission on Cooperatives. The answer of the Cooperatives is 'when it is a surplus'. We respectfully submit that any surplus is a profit within the meaning of the term under our present economic and social system and that the terms 'profit' and 'surplus' are indistinguishable.

'Profit' and 'Surplus' in basic English are common terms. The first more commonly refers to monetary gain, the second to overplus of any commodity or thing which bears an intrinsic value. Therefore, briefly to state our position as an Association we submit that the earnings of our cooperatives should be taxed in common with all other gainful enterprises carried on within the state.

"In the early days of cooperatives, the activities of these groups were so restricted that they did not impinge themselves upon the operations of nor interfere with the conduct of normal business. Two great factors then developed, the first that Cooperatives, not satisfied with dealing within themselves, launched forth into competitive business with normally conducted and tax-paying enterprises and secondly the incidence of taxation brought about by war became so great that cooperatives exempted from taxation by the State enjoyed and continue to enjoy in this country an advantage so substantial that ordinary traders are not able to meet their competition.

"Indeed, in Great Britain, it became so obvious that this circumstance could not continue, that as early as the year 1933, the provisions of the Financial Act were amended and cooperative societies of every description, wholesale, retail and producer, and mutual concerns became taxable to the same extent as limited liability companies trading in similar

conditions.

"The Royal Commission appointed in 1919 to inquire into this condition gave the following among other reasons for the appointment of that body."

THE CHAIRMAN: We have already had that a number of times, Mr. Gould.

THE WITNESS: I shall skip it, then.

"One simple example of the actual impact of cooperative trading upon taxable business concerns is fairly indicated in an advertisement which appeared in an issue of the Family Herald and Weekly Star of Montreal in the late part of 1944 in which the United Farmers Cooperative Company Limited, of Toronto, Ontario, in setting forth their '1944 Achievements' says:

"Entered manufacture of shingles in British Columbia through National Cooperatives Incorporated. Introduced new Finance programme with issue of Preferred and Common Stock, and arranged with Affiliates for plowing back of wholesale patronage returns into common stock."

If I may be permitted, Mr. Chairman and members of the Commission, in a copy of 'Business Week' which came to my desk this morning, under date of February 17, there is a short item which I should like to read, if I may.

THE CHAIRMAN: This is last Saturday's issue:

THE WITNESS: This is last Saturday's issue:

"Co-Ops Add Appliances

"Cooperatives are getting set to invade the electrical appliance field. Following the favourable vote of the appliance committee and the executive committee of National Cooperatives, Inc., last month, steps will be taken at once to prepare for post-war distribution of such items as refrigerators, radios, water-heaters, home freezer units, washing machines, vacuum cleaners, toasters, stokers, irons, and other home and farm appliances.

"This is a first step in the post-war programme of the co-operatives for diversifying their products and services to offset present emphasis on farm supplies and to increase measurably the number of United States consumers -- now less than ten per cent of the population -- who are co-op patrons.

"Plans for appliance distribution contemplate establishment of repair and service facilities through local and regional co-operatives."

To continue with the brief:

"The Cooperatives Union of Canada in a presentation to the Canadian Government presenting their claims, argues that Cooperatives 'tend to act as a curb on private monopolistic trends in business' and concludes its submission by stating that if their demands are acquiesced in, more encouragement will be given to Canadians to use the Cooperative movement as a method of solving many of their problems rather than to rely on government aid. It would be a hardy individual indeed who would assert that there are monopolies in Canada for the whole trend of legislation in the past decade has been to the end of putting on an end to the existence of any monopoly which might exist. With respect to their last statement, if business were conducted one hundred per cent on a cooperative basis, government aid of any kind would be impossible as there would be no contributions by citizens in business to the State through the medium of taxation. The State is the people and it is abundantly clear that the State can only grant aid if and when it is put in possession of funds by the citizens. Of itself the state is not possessed of a single centime, except when it is put in possession of funds by its taxpayers. In a word the cooperative argument is that their members should be considered as people apart from the State,

enjoying all its benefits and services, but making no contribution thereto. Surely when citizenship is accepted with its advantages, the responsibilities, financial and otherwise, which it imposes cannot be ignored by any section of the country.

"In the same submission the Cooperative Union of Canada talks loosely of 'savings'. Where, we ask, do 'savings' end and 'profits' begin, and what is the distinction?

"The Cooperative Union of Canada asserts that surpluses resulting from business done by Cooperatives with their members are entirely different from profits made by joint stock companies that do business with the public. Surely this is a distinction without a difference and a mere play of words. No joint stock company can show a profit unless it first achieves a surplus. The source from which this surplus or profit is derived is, we submit, a matter of no concern to the taxing authority and its existence or non-existence is the prime question.

"The Cooperative Union of Canada in its submission recalls that in 1929 a representative delegation of that body waited upon the Dominion Government asking that surpluses made by cooperatives in their relations with their members be recognized as savings and not a taxable income from profit, Since when were savings derived from any source but earnings? The very existence of savings is predicated upon the circumstance that earnings had somewhere been made along the line in connection with business transactions or the sale of personal service.

"When the Income War Tax Act was amended in 1930, the Honourable Mr. Dunning, then Minister of Finance who introduced the Bill stated that 'the intention is that

bona fide co-operative organizations shall be exempt from the provisions of the 'Income Tax Act'. Much water has run under the bridge both politically and economically since that date and the Honourable Mr. Dunning is now a private citizen, more closely affiliated with business than political economics. At the risk of being charged with presumption, we believe that it would be of keen interest to this Royal Commission to ascertain if the Honourable Mr. Dunning's views on this subject have experienced any modification or change particularly in view of the rapid development and encroachment upon normal tax-paying business in this country, and the changed perspective from which he must now view such developments.

"The Cooperative Union of Canada, in the same submission complains that as a result of uncertainty in connection with taxation, no cooperative can have assurance with respect to the soundness of its financial position as shown in its balance sheet. In other words, the Cooperatives ask that the soundness of their financial position be made secure by the government of this country through exemption from taxation. The request is presumptuous, unfair and absurd, in our opinion. In the practice of business, medicine, law and the professions, there are certain rules laid down for their guidance by Parliament which is necessary to the economic well-being of the country as a whole. The only exceptions which we can think of at the moment are those to the government itself engaged in the art of governmental control and to the Christian churches in their strivings to save men's immortal soul. The reason for these exceptions are obvious and to this field they should be limited. If everyone were obliged

to provide services and goods at cost the profit motive would immediately disappear, the value of money as such as a medium of exchange would vanish, the functions of the State could not be supported and we would return to a system of barter."

In the next section, Mr. Chairman, the Royal Commission set up in Great Britain is again quoted. That has been presented already.

THE CHAIRMAN: We have seen that many times.

THE WITNESS: Then there is another quotation following that; I shall proceed on page 6:

"We submit that our Canadian Cooperatives, whatever they may have been at the outset, are not now truly mutual concerns, and that the exemptions granted them when conditions were completely different works injustice and hardship to-day to other tax-payers.

"The Royal Commission of Great Britain further stated in its conclusions:

"We are unable to see any reasonable ground for holding that the undistributed surplus derived from the trading of a Society with its members should be exempted from Income Tax by reference to the nature of the source from which it arises."

"When we remember that almost ninety per cent of the expenditures of our government to-day is for war, we cannot agree that there should be set up by legislation a privileged class in Canada, which is rapidly expanding from the very nature of things will continue to expand, who are not called upon to participate through taxation either in the defence of the realm nor in support of the normal functions of government.

"Under present conditions these organizations enjoy

what amounts to a subsidy equal to the tax, which is in these times very substantial, which would otherwise have been collected from them and become part of the National Revenue as is the case of normal business organizations who are obliged in addition to face this unfair and unnatural competition. With every increase in normal taxation this subsidy is increased and the position of our industrial and commercial organizations made more difficult if not untenable. In a recent publication issued by the Dominion Government entitled 'Canada 1944' under the heading of 'Cooperative Associations', it is stated:

"For the year ended July 31, 1942, in comparison with 1941, the value of livestock marketings increased from \$26 million to \$40 million, dairy products from \$24 million to \$39 million, fruits and vegetables from \$11 million to \$15 million, and poultry and eggs from \$4½ million to \$7 million. Improvement in price accounts, in part, for these increases, but it is safe to say that the physical volume of the marketings has increased by twenty-five per cent. According to reports received in the year 1942, a record in co-operative activity has been established in Canada. For the first time in the past eleven years, reported membership has exceeded 500,000 the total business has passed the \$250 million mark. Reserves and surplus, which reached a high point of \$46 million, and an improved working capital position, indicate that expansion of cooperatives has been accompanied by a strengthening of their whole financial structure.

"In Canada early expansion of cooperative activity took place most rapidly and to the greatest degree in the marketing of farm products. Presumably this field offered the farmer the greatest opportunity to effect savings and to provide needed services. However, in recent years with the establishment of cooperative wholesales in nearly every province, the purchasing of farm supplies and household needs on a co-operative plan has shown a marked increase.

"Out of the 1,722 cooperative associations reporting in 1942, a total of 558 handled food products to the value of \$9 million and 130 associations handled nearly \$1½ million worth of clothing and home furnishings for their members and patrons. These associations included the business of approximately 250 urban consumer

societies. Petroleum products, handled by 561 associations, were valued at \$7 million.

"In order to increase crop and live stock production, farmers of 834 associations purchased \$16 million worth of feed, fertilizer, and spray material on a cooperative basis."

"With respect to the business with which our particular association is concerned, it is reported that in 1938 these cooperatives sold supplies which included building material to the extent of \$20,091,893, and in 1942, the total rose to \$42,327,447.

"This is an increase of over one hundred per cent, and with respect to building material which is not segregated, we know from observation in our business results, that this increase has been substantially more than one hundred per cent. Our members would be very naive indeed if they did not view this encroachment upon their field with great alarm.

"We believe that the position taken by the Royal Commission in Great Britain in 1933, in circumstances and conditions similar to those that exist in Canada to-day, and which indeed are at present even more acute in this country than they were in the United Kingdom at that time, was a sound one and fraught with wisdom and we respectfully suggest that this Royal Commission on Cooperatives consider well the Biblical injunction, "Go thou therefore and do likewise".

BY MR. PARKER:

Q. Mr. Gould, what is the source of the figures that you give at the bottom of pages 7 and 8? Where do you get those figures? A. Those figures of \$20 million and \$42 million?

Q. Yes. A. They came from this book entitled "Canada 1944," Cooperative Associations.

Q. And then on page 8 the same -- no; those are deductions you make from it? A. Yes, sir.

Q. Were there any figures in the book, or have you any figures from any other source, showing the percentage of increase in the business done in building materials by the member companies? A. No, those were not available.

Q. Is there any way that those could be secured, do you think? A. Unless it is within the framework of the statistical department at Ottawa, I doubt if they could be secured.

Q. From your own general knowledge are you in a position to state whether or not it is true that during the same period in which the cooperative business jumped, as you say, a hundred per cent, there was an equal or parallel increase in all private business, or perhaps a greater increase?

A. Building materials, I may say, have not been available to anything like the extent of normal requirements. There have been increases of course in the sale of building materials over the war years, but it has been very limited.

Q. My point is this: haven't the so-called private companies, the builders and dealers whom you represent this morning, shared in that increase just as much as the cooperatives? A. Oh, yes -- well, I think the cooperatives in many cases came in as new comers in the field, so that theirs was an entirely new development. But there has been certainly an increase in the distribution of building supply materials in that period -- not to the extent of a hundred per cent, of course, but a substantial increase.

Q. You have no figures on that, to show how -- A. I haven't, but I could attempt to get some reasonably sound figures for the Commission.

Q. I suggest it would be desirable for you to cite those figures. A. Yes.

Q. You say that the cooperatives are getting more than their share, so to speak. A. Yes, we want to be perfectly fair.

Q. So that one side of the figures without the other does not carry you very far. A. The position is well taken. We shall be pleased to try to get them.

Q. Let us go back to the first part of your brief. You pose a rather serious question in the opening sentence, but do you answer it anywhere?--"When is a profit not a profit?" Or, let me put it in another way; can you tell the Commission what profit is? It is not of much advantage to this Commission for you to ask questions; we would much rather you answered some of their problems.

A. I attempted to point out in this opening sentence that a surplus is a profit.

Q. Profit is surplus? A. A profit is surplus.

Q. That does not get us very far. A. If you have a surplus over the amount of what it costs you to operate, that surplus is profit, and all profit must in our opinion stem from a surplus. If surplus is lacking, profit does not exist.

THE CHAIRMAN: I do not think you have rated that question sufficiently high. It goes beyond the \$64 question.

MR. PARKER: It is an Oscar, Mr. Chairman. (To the Witness):

Q. To be serious, Mr. Gould, it is a very difficult question, to know what profit is, and we would like to know the answer to it. A. It is our suggestion that surpluses of cooperatives are profit and they should be taxed.

Q. Perhaps, then, we will have to go back and get your idea of what are the surpluses of the cooperative. What do you mean by that? A. Well, the large or substantial reserves that are put away undistributed, which in the case of a corporation would be distributed and bear taxation under the company's income tax.

Q. Would bear income tax -- under what conditions?

A. Well, the company that makes a large surplus or profit, as the case may be, report it on their tax.

Q. I understand that, but we are talking about the surplus of the cooperatives. A. The cooperative making the same surplus or profit, as the case may be, is not subject to the tax, as we understand it.

Q. If you will look at page 2, perhaps this will help you to tie the two together, where you say in the first paragraph: "Mutual concerns became taxable to the same extent as limited liability companies trading in similar circumstances and under similar conditions." Do you maintain that the cooperatives as we know them, both producer and consumer, are operating in similar circumstances and under similar conditions as the companies? I will put it in another way: Do they operate by the same methods? Do you say there is no difference between the two? A. Well, I suggest that if I am a member of a cooperative and I buy a washing machine or a bushel of seed grain and I buy it cheaper, or at cost, than I would from a normal trader, then that difference is the profit which the normal trader would take and which the cooperative assures to itself, and, in assuring it to itself, distributes it amongst its members, of which I am one.

Q. Suppose I go to one of your private dealers to buy

a washing machine, the price of which is \$250, and for some reason the dealer gives me a discount of ten per cent of that; have I made a profit of \$25? I am the purchaser.

A. You have made a saving.

Q. Have I made a profit, a taxable profit? A. If we assume you have a thousand dollars in the bank, in your savings account, you save that much more out of it.

Q. I am going to ask you to assume I have the cash in my pocket to pay for it. A. Yes, you save -- say it is \$10; suppose you save \$10 --

Q. Suppose you are the dealer and you quote me a going price of \$250; I do a little bargaining with you and I get a discount of ten per cent. You sell me the machine and I pay for it and walk out; have I made a profit of \$25?

A. Yes, I would say so.

Q. You would? A. Yes.

Q. Well, do you think that is so? A. That is only my opinion.

Q. There are some who would not agree with you, but that is the opinion you are prepared to express now personally -- or is that the opinion of the trade? A. No; that is the opinion of our organization, of the industry. I think I should interject this statement, if I may: that we have no objection whatever to cooperatives; it is only in the matter of taxation that we differ in our opinions.

Q. Quite. Well now, I will put it this way to you. Cooperatives as they have been explained to this Commission up to date -- perhaps I can state it this way. They have in their possession after they carry on the business, funds which are handled under three headings, speaking generally. They set aside a certain amount for reserves; in some cases they pay back to the individual members a certain amount

of those surpluses on the basis of quantity of business done, and in between those two there are certain amounts that are retained by the cooperative perhaps for three or four or five years, and they ~~issue~~ some sort of note or promise indicating that it is held in certain proportions for the members. There are these three divisions. Now, will you tell the Commission what you propose to tax, what you think ought to be taxed -- one, two or three, or how many of these segments I have mentioned? That is really the problem that is before the Commission, and we would like some help there.

A. I feel and the industry feels that the profits or surpluses of the cooperatives should be treated in precisely the same way as the joint stock companies.

Q. But don't you see that they are two different animals? How can you treat them in the same way? When you say that you do not advance the problem at all.

A. The cooperatives, as I understand it from your explanation, take certain funds which they have to the good and they earmark them and give them certain names, but I don't know that that makes those funds any different because they give them names. Certain parts of their funds are designated as reserves; others are held, as you say, and the members are given credit for them, and they are either returned to the members or, if need be, used by the cooperatives for their own purposes.

Q. Have you considered the case where the cooperative association merely acts as the agent for its members to dispose, we will say, of its wheat or its milk, if it is a dairy, or other agricultural products; they merely take it on consignment, so to speak, and dispose of it at the best price they can and under terms that will return to the producer whatever there is left after the costs are paid. Is there any profit to the

cooperative in such a transaction? A. I think that was the fundamental and basic method of operation of the cooperatives. The same question might be put with respect to the joint stock company. The same thing is true of the stockholders.

Q. I would much prefer that you answer the question as I put it, as applying to cooperatives, for the moment.

A. As an operating entity I would say that that is a profit to the cooperatives. It seems to me there must be some economic distinction made between the cooperatives and their members. The members of the cooperatives have joined hands in the matter of the carrying on of a business transaction, and any surplus or profit they make is a surplus or profit.

Q. Yes, but the argument is they do not make a profit. Can you help us on that? A. Well, if they have goods that are worth a million dollars and they sell them for a million and a half dollars, it is inconceivable to me that that extra half a million dollars is not profit.

BY MR. ARNASON:

Q. Mr. Gould, with reference to the illustration that Mr. Parker used about the discount of ten per cent, in which the purchaser makes a saving in the form of a discount, do you think that the purchaser should be taxed on that saving? Would you say it was profit to that extent? A. No, I think that is wisdom on his part to take advantage of it. We in our business, if I may say, give a trade discount if the account is paid say by the fifteenth of the month. Now, the company that give that discount give it because they get their money in quickly; it saves them ten per cent or whatever the cash discount is. It saves them that much money.

Q. Suppose the purchaser bought that washing machine from a cooperative and at the end of the year he received a rebate of ten per cent on the purchase price; what would be the position there? Would you say that was taxable?

A. No; I would say that the cooperative has as much right certainly to grant a discount as the ordinary trader has. But it doesn't take with it an admission at the same time, sir, that they should not be taxed.

BY MR. PARKER:

Q. Who should not be taxed, the man who gets the discount or the man who gives it? A. That the cooperative should not be taxed.

Q. Taxed on what? A. On their profits. There is an application for taxing in the United Kingdom, and there certainly must be some fair and reasonable formula by which a cooperative can be taxed on what its profits are. It is a matter of the segregation of profits.

Q. That may be so, but you are not able to assist the Commission in making that segregation? A. No, sir; I am afraid if I were able to do that, the labours of the Commission would not be necessary.

Q. Look at page three for a moment. The Commission has heard a good deal about monopolies, and you have something to say about them: "It would be a hardy individual indeed who would assert that there are monopolies in Canada for the whole trend of legislation in the past decade has been to the end of putting an end to the existence of any monopoly which might exist." Do you take the position that there are no monopolies in Canada to-day? A. Yes, I think I will have to agree with Mr. McGregor in Ottawa that there are no monopolies.

Q. That is the Wartime Prices and Trade Board you are

Mr. Gould

referring to? A. Mr. McGregor has charge of the Combines Investigation Act.

Q. Then I do not follow your argument in the next sentence. "With respect to their last statement, if business were conducted one hundred per cent on a cooperative basis, government aid of any kind would be impossible as there would be no contributions . . .". In other words if the whole business world were one cooperative you are suggesting there would not be any taxes at all -- no income taxes? A. No income taxes and to-day that is the major portion of our revenue.

Q. In making that statement have you considered the fact that somewhat in proportion to the extent to which business goes cooperative and the patronage dividends are paid back to the individual members, the taxes payable by those individuals will be very much increased? In other words wouldn't there be a substantial income tax from the individuals rather than from the cooperative association itself?

A. Substantial income tax from the individuals who are members of the cooperatives?

Q. Yes. If the members of a cooperative receive back large sums of money as patronage dividends isn't their personal income going to be increased in every case? Isn't it natural to assume they will pay much greater income taxes -- I am referring now to producer cooperatives. A. Yes, theoretically that is sound in any event.

Q. Isn't it actually so? The more income a man receives the more income tax he has to pay? A. Quite true.

Q. That is true, isn't it? A. Yes.

Q. So I say in making that statement weren't you overlooking that element, that personal income taxes would be on the up grade? A. If the cooperatives -- just on that

point -- pay back to their members sums now held in reserves and if the cooperatives are correct and it is agreed by the government that their surpluses are not profits, then they wouldn't be taxed when distributed to individuals.

Q. They only suggest they are not profits in the hands of the cooperatives; no one is suggesting that they are not profits in the hands of individual members when they are paid back to them, are they? A. I may be stubborn, sir, but I cannot see the difference between the surplus and the profit in that case.

BY MR. ELLIOTT:

Q. In that same section, Mr. Gould, you say : "If business were conducted one hundred per cent on a cooperative basis, government aid of any kind would be impossible as there would be no contributions by citizens in business" What do you mean by "citizens in business"? Would you consider the manager of a cooperative association a citizen in business? A. The manager of a cooperative association, I would say, is in the same relationship as I am to my organization; he is hired help.

Q. Who are "citizens in business" as you refer to them there? A. Everybody who is gainfully employed, I take it. I feel that anybody who is gainfully employed is a citizen in business.

Q. Then if business were conducted one hundred per cent on a cooperative basis, your contention is that no one would be gainfully employed? A. You would not need taxes if we returned to a system of barter. I remember very well in the old days in Nova Scotia you were allowed to work out your road work; you took your shovel and pick and worked it out.

Q. I assume you contend that cooperatives in these days

do not conduct their business by means of barter.

A. Well, they set out that way to some extent, but that condition has changed and brought about a new problem.

Q. Have you anything to add as to the meaning of the phrase "citizens in business"? A. No, nothing more than that. It may have been used loosely and in a broad way.

BY MR. PARKER:

Q. Now, if I might just draw your attention to page 4, you refer to the occasion in 1930 when the present 4(p) was enacted in the Income War Tax Act, and you say that the then Minister of Finance in introducing the bill stated "the intention is that bona fide cooperative organizations shall be exempt." What do you mean by that? What do you understand by that? I am not asking you what Mr. Dunning meant by it, but what do you understand by it? What is the difference between a bona fide cooperative and any other cooperative? You and I know the meaning of the words "bona fide"; what I am getting at is, can you draw a line between an institution which is a bona fide cooperative and one which is masquerading as such but really is not? You see my point? A. I see your point, sir.

Q. Can you help us on that? A. I do not suggest that the cooperatives are masquerading, but I do suggest, or we suggest as an organization, that when the cooperatives started originally they stuck to basic things such as the distribution of farm products, and the distribution of certain basic products, among their members, which their agricultural members or fishermen as the case may be, needed--twine, nets, and so on. Since that time, as we all know, the cooperatives have, like the Creator after He created the world, looked upon it and found it was good, and they have

branched forth into many other commercial activities, almost every form of commercial activity. We feel that if co-operatives seek and are given the same privileges of trading as our joint stock company or other business enterprises, they should play the game under the same rules.

BY THE CHAIRMAN:

Q. Which is really the burden of your argument, Mr. Gould? A. Substantially, my lord.

Q. That cooperatives as such, those which are purely cooperative, need not be taxed, but that they have departed from their principles and for that reason they should be taxed? -- I see that on page 6 of your brief. A. Yes, my lord; that is so.

BY MR. PARKER:

Q. That is what I was coming to. You say that when they branch out into processing and manufacturing and all that sort of thing, they cease to be true cooperatives? A. Yes.

Q. But you do not attempt to draw the exact line where they part? A. No, it is very difficult.

Q. But that is the gist of your argument? A. That is correct, sir.

Q. Just one other question. On page 5 you say: "If everyone were obliged to provide services and goods at cost the profit motive would immediately disappear, the value of money as such as a medium of exchange would vanish, the functions of the state could not be supported and we would return to a system of barter." As I understand it, the cooperatives say that is just what they want -- the elimination of the profit motive. A. Precisely.

Q. You think that would be fatal, if that were done; is that your argument?

A. We do not think you can mix the two systems; you either have the one or the other. We felt we had gone a long way when we left the system of swapping a grindstone for ten bushels of potatoes and the miller ground your wheat for services rendered. Maybe we haven't.

Q. I suggest to you that perhaps you have gone quite a long way in this statement when you say that if everyone were obliged to provide services and goods at cost the value of money as such as a medium of exchange would vanish and the functions of the state could not be supported. It looks as if you had gone a long way in making that statement.

A. That may be the picture that would come if that process was pursued to the end of the road.

Q. Perhaps you intended the language to be merely picturesque rather than literally true; is that it?

A. Well, it isn't exactly poetic licence, but --

Q. On page 6 you say that almost ninety per cent of the expenditures of our government to-day are for war. Is that correct? A. This statement I think was made by Mr. Ilsley or someone representing his Department, in a public address quite recently.

BY MR. NADEAU:

Q. Do you know what is the proportion of building supplies to the business done by cooperatives in this country? A. In the building supply field?

Q. In your field. A. I would have, sir, to give you a guess based on experience; I have no figures. I would not say it was more than twenty per cent.

Q. You have no definite information about that?

A. I haven't, no -- not collected figures.

BY MR. ARNASON:

Q. Mr. Gould, there is a sentence on page 3 of your

brief that puzzles me a little. You may perhaps have dealt with it during the discussion with Mr. Parker; but it reads as follows: "In a word the cooperative argument is that their members should be considered as people apart from the state, enjoying all its benefits and services, but making no contribution thereto." As I say, we may have dealt with this before by inference, but I was wondering whether these words really implied something more than you were prepared to contend. If I might put it this way: you are not suggesting that cooperatives as such do not pay any taxes, are you? You are referring to income and excess profits taxes? A. No. I am referring to income and excess profits taxes.

Q. That is what I thought. You are not implying by this sentence that the members of cooperatives do not pay taxes? A. Oh no, not at all -- of course not. I have only reference in any of this to income and excess profits tax. We take the stand that you cannot segregate from the activities and profits of the cooperative its own members, because the one is part of the whole.

Q. Now, one more question. On page 1 you refer to the activities of cooperatives in the early days: "The activities of these groups were so restricted that they did not impinge themselves upon the operations of nor interfere with the conduct of normal business." Then you say: "Two great factors then developed, the first that cooperatives, not satisfied with dealing within themselves, launched forth into competitive business with normally conducted and tax-paying enterprises." Would you care to develop that a little further? Do you mean that there was a departure on the part of the cooperatives from their principles of operation, or are you suggesting that

the difficulty arises from the fact that they invaded new fields? A. Largely the latter.

Q. It has not departed in principle, then? A. I am not possessed of sufficient information to intelligently discuss the finances of the cooperatives and how they have-- it is indicated that they have departed to some extent, and naturally would in the development of their application of their principles. But certainly I think the larger part of it has been an invasion of other fields in almost all lines, which is continuously increasing. I wondered for example if you were referring to non-member business, that some cooperatives in the expansion of their operations have tended, perhaps unconsciously, perhaps deliberately, to emphasize business with non-members.

A. As an organization of course we are more concerned with non-member business than we are with member business, while both of them concern us. If the cooperatives as we know them to-day made a drive to develop non-member business, we feel it would be a very serious thing for us.

BY MR. ELLIOTT:

Q. On page 4, Mr. Gould, you say: "The Cooperative Union of Canada complains that as a result of uncertainty in connection with taxation, no cooperative can have assurance with respect to the soundness of its financial position as shown in its balance sheet." Then you interrupt the sentence beginning "In other words," and you conclude: "The request is presumptuous, unfair and absurd, in our opinion." Do you object to the request by a taxpayer that the law be clarified so that he can compute with some certainty the amount of taxes he should pay? A. To answer your question, we object to any persons or

group of persons or organizations setting up a system of business and saying: Now, this is how we are going to conduct our business, and then turning around and going to the Federal government and saying: Because we have set this up in this way, we want to be assured of a profit. I think that if they set it up they should first consult the proper authorities and then take their chances on running a profitable enterprise. This is the common hazard that every individual and every company must take in business, and when an individual or group asks that they be assured of a financial position by exemption from taxation, we believe that to be unfair.

Q. But the sentence says, "as a result of uncertainty in connection with taxation". There is an axiom of public finance that one of the characteristics of a group tax system is certainty, that is to say, that the taxpayer should be able to ascertain how much tax he is called upon to pay, and when he should pay it. Do you object to that principle? A. No, I don't object to that, but I think the way you put it, sir, if I may say so, rather suggests paternalism on the part of the government or the taxing authority. .Anyone who enters into business must shoulder many other things, definitely a certain amount of risk, and we suggest that as the cooperatives do not pay taxes in these fields, to that extent their risk is removed.

Q. I understood this first sentence to mean that the cooperatives were uncertain as to what taxes they might have to pay, or under what circumstances they were asked to pay them. A. In the brief I referred to, they complained of that -- that their position is uncertain.

Q. And you have no objection to uncertainties being removed in the field of taxation so far as that is --

administratively possible? A. Well, I will put it this way: I think we all would like to be certain of eternal life, but we nevertheless must take a certain amount of risk in that connection. The same is true of business.

Q. With regard to the specific proposal that you are making -- or are you making a specific proposal? A. No, we are not making a specific proposal. We believe that there is a precedent for what we suggest, particularly in the United Kingdom.

Q. Is it your impression that the repeal of section 4(p) would be sufficient to meet your wishes? A. It might not, and again it might, because conditions have changed so much in the past few years that any change in the present law must be, we think, studied very carefully by men who are in an eminent position to make a just decision. We do not believe something should be done suddenly to destroy the structure of the cooperatives after all these years of effort on their part, which could easily happen.

BY MR. VAUGHAN:

Q. I would like to ask a question in connection with your opening remarks to the brief, No. 2: "That history has proven as in the case of Great Britain that it is necessary that cooperatives bear a similar tax as business corporations if the economic soundness of the country is to be maintained and the state protected." You say it is necessary that cooperatives bear a similar tax as business corporations. You refer to Great Britain; is it your idea that taxation here would be the same as in Great Britain? A. Not necessarily so, no, because the conditions and circumstances may be very different.

Then there may be certain phases of the question here that would not permit --

Q. Then it is not intended by this statement that it is your view that the same basis should be adopted in Canada?

A. No, we do not feel we are competent to judge to that extent, sir.

Q. Referring to No. 5, you state it there a little more clearly. You say: "That all business enterprises within the state irrespective of the name under which they are carried on should be subject to a common basis of taxation and make their just contribution to the operation of the functions of the state." What do you mean by "common basis"?-- the same kind of tax as is applied to corporations?

A. I must say, to be very frank, I was reading that over the week-end and that very phrase in the brief took on a new meaning to me. I do not think, on second thought, you can apply any common factor to taxation, to all activities in the state. "Common basis" I think possibly is too wide a term.

Q. What would you say, then -- equitable basis?

A. Equitable would be the word, because all these enterprises perform different functions.

BY MR. PARKER:

Q. Following up what Commissioner Elliott referred to about this uncertainty, so that we will understand your position, I gather you contend that the uncertainty arose by reason of the cooperatives attempting to do business on such a basis that they were not sure whether it came within the provisions of the exempting clauses of the Income War Tax Act?

A. Yes, it is their complaint that if their conditions were changed they would be under these

circumstances of uncertainty.

Q. If they were to do business a little differently there would be no uncertainty; is that what you mean?

A. No; if they did business a little differently, as we do it, they probably would to a very great extent increase their certainty, and make it necessary for them to be perhaps a little more careful of how they conducted their operations.

MR. PARKER: I am sorry; I attempted to clarify the matter, but I am afraid I succeeded in doing something else.

BY MR. MILLIKEN:

Q. I am sorry, but sitting back here I have not yet ascertained what your name is. A. My name is Gould.

Q. Mr. Gould, do I understand that you are prepared to recognize what you call the basic cooperatives as being exempt from income tax, and that it is only those who have moved forward into other fields that you would tax? Or would you tax them all because some of them have moved forward into another field? Which do you mean?

A. I would not suggest that even the basic cooperatives as we have called them, should be tax exempt.

Q. You think they should still be tax exempt if they are carrying on in a basic way, in the way that they started?

A. Precisely.

Q. It is only those who have moved into a new field that you think should be taxed? A. No -- I am sorry.

Q. I am not sure what you meant. Would you tax them all?

A. In other words if you scratch your finger and it is not infected it doesn't bother you at first, but once it becomes infected and you have to have your hand amputated, it becomes a very serious matter. The competition of the early cooperatives in the basic activities did not really

represent very much, but it has become a different proposition now. And added to that is the circumstance that taxation has become very excessive during the war, and the situation is unduly aggravated.

Q. But to come back to the competition, because they are larger now, do you think they should be taxed? A. No; I think if cooperatives should be taxed there should be a basic formula, that they should be taxed in any circumstance.

Q. All cooperatives? A. Yes.

Q. No matter whether they were ones that carried on basic things or not? A. One would only confuse the situation by having certain cooperatives exempt and certain of them not. To me that would be unsound.

(French follows -- La Chambre de Commerce,
La Sarre, Que.)

LA CHAMBRE DE COMMERCE OF LASARRE, P.Q.

The year of Our Lord one thousand nine hundred and forty-five, February 19, appeared:

MR. HECTOR GAGNE,

of LaSarre, P.Q., representing la Chambre de Commerce Senior de LaSarre, who, after having taken the oath on the Holy Evangelists, deposes:

EXAMINED BY MR. ROGER BROSGARD, K.C.

Q. What is your occupation? A. Merchant; I operate a 5, 10 and 15 cent store.

Q. Are you a member of la Chambre de Commerce of LaSarre?
A. Yes.

Q. Do you occupy any office in la Chambre de Commerce of LaSarre? A. At the present time I am only a member.

Q. Who delegated you to represent it?

A. La Chambre delegated me by resolution.

Q. Is the president of la Chambre here? A. Yes. A copy of the resolution was forwarded to the Commission of Inquiry.

Q. You are submitting a memorandum this morning. Did la Chambre de Commerce of LaSarre approve that memorandum?
A. For the past two years la Chambre de Commerce of LaSarre has given deep and recurrent study to the subject of co-operatives, and the resolution we are presenting to-day was presented in about the same phraseology by the Chambre itself to the congress of Chambres de Commerce of the province of Quebec.

Q. This memorandum which you are presenting this morning has already been the subject of a resolution on the part of la Chambre de Commerce of LaSarre? A. Yes.

Q. Is it a resolution of a committee of la Chambre or of all the members of la Chambre de Commerce?

A. A resolution subscribed to by all members convened in regular meeting.

BY THE CHAIRMAN:

Q. Are you numerous? A. We comprise more than fifty members, I cannot state the exact number.

BY MR. BROSSARD:

Q. Does la Chambre comprise members residing in the town or in the region? A. In the town, for we have a federation of Chambres de Commerce in the region.

Q. What is the population of the town of LaSarre?

A. About 3,000.

Q. And you say your Chambre comprises about fifty members ? A. Yes.

Q. Are they business men? A. Business men, professional men, farmers and people who are concerned with the well-being of the community.

Q. Are all the business men of LaSarre members of la Chambre de Commerce? A. Yes, about all the business men are members of the organization.

BY MR. NADEAU:

Q. Are there cooperators who are members of la Chambre de Commerce? A. Yes.

Q. Are they unanimous in presenting this resolution?

A. No, there were objections to this resolution, but very few objections.

Q. Did they concur in this resolution? A. They themselves did not draft the resolution.

BY THE CHAIRMAN:

Q. The majority supported the resolution? A. Yes.

BY MR. BROSSARD:

Q. There are cooperatives in LaSarre? A. Yes, la cooperative Federee and la Cooperative "La Moissonneuse",

a consumer cooperative, and la Caisse Populaire (People's Savings bank).

Q. La Cooperative Federee, "La Moissonneuse" Cooperative and a Caisse Populaire Desjardins? A. Yes.

Q. They are the only ones in existence at LaSarre?

A. There are several in the vicinity that come and do business in LaSarre. LaSarre is to some extent the centre of distribution for western Abitibi.

Q. Will you read your memorandum? A. Yes.

"The Royal Commission of Inquiry on Cooperatives,
Room 325, East Block,
Ottawa. Ontario.

Gentlemen:

'The Chambre de Commerce of LaSarre, Quebec, begs to bring to your kind attention the following brief regarding the taxation of Cooperatives.

"1. Whereas federal legislation in favour of Cooperatives encourages our educational institutions to imbue their teaching with cooperative ideas in matter of management.

"2. Whereas cooperative ideas earnestly tend to socialization and in order to enhance their cause make unfair attacks on private enterprise.

"3. Whereas preferential legislation governing cooperatives is unfair to private enterprise.

"4. Whereas public funds are directly or indirectly spent in the interest of cooperatives while private enterprises are heavily taxed.

"5. Whereas cooperatives are unable to lower the cost of living for their members on account of the competition which already exists in Canada in most branches of trade and industry.

"6. Whereas the spread of the cooperative system would constitute a trust eliminating all competition and therefore

impossible to control.

"7. Whereas in most cases Cooperatives are breaking the law in offering their goods for sale to the public.

"8. Whereas Cooperatives often replace firms liable to income tax, thus causing a loss of revenue to the government.

"Therefore, we consider that the cooperative system would be a hindrance to progress because it checks initiative, because it destroys harmony and divides the classes, because it preaches fallacy and hate, because it offers no guarantee of improvement in the economic condition of its members, because such an economic system would do away with competition instead of fostering it and would lead to an absolute and dangerous control of business; we consider that the government of Canada is not justified in granting cooperatives a protection it denies to private enterprise, that it is our duty to support free enterprise which has placed our country in the proud position it occupies to-day among the great powers and we humbly request the proper authorities no longer to favour cooperatives of all kinds with state paternalism and to make them subject to the same laws as are applicable to private enterprises in respect of subsidies, taxation and duties.

Respectfully yours,

Chambre de Commerce Senior De Lasarre

Per G. E. Pronovost President

per L. P. Begin Secretary"

BY MR. BROSSRD:

Q. You said that there were a certain number of cooperatives in the vicinity of LaSarre apart from the three cooperatives you mentioned: la Cooperative Federee, "La Moissonneuse" and la Caisse Populaire Desjardins? A. Cooperatives of another type?

Q. Yes. A. Yes; there is the Syndicat cooperatif de construction (Cooperative Construction Syndicate).

Q. Which is established where? A. One is established in the Beaucanton settlement and the other in the Roquemarre settlement.

Q. Near LaSarre? A. Yes; at a distance of some twenty miles.

Q. Was your memorandum drafted and certain statements contained therein made after a study of the business methods of cooperatives? A. Yes; in the first place, it is in line with the experience of what occurred in this region of the province, 20, 25, 30 years ago.

Q. Whose experience? A. I am in the Abitibi district now, but I was born in Matane and I had knowledge of cooperatives that were organized and that caused their members to lose money and finally, the whole thing ended in failure and everybody was very deceived and very disappointed. It is quite a long time since I went to Matane, but I am almost certain that there is no cooperative store in Matane.

Q. Must I infer that you prepared this memorandum and submitted it to the Chambre de Commerce? A. No.

Q. Did you work to inspire it? A. Yes.

Q. Were you among those who worked the most to inspire it? A. I would perhaps be among those who worked the most.

Q. Therefore, you are in a position to give additional information? A. Possibly.

Q. One of your first statements in the memorandum is that federal laws, certain federal laws, protect cooperatives. Would you state what laws you have in mind? A. Having regard to exemptions from taxes.

Q. It would be especially the Income Tax Act on its negative side, by not taxing cooperatives? A. Yes.

Q. The provision in that Act which exempts cooperatives?

A. Yes.

Q. You have no others in mind when you make that statement?

A. No.

Q. Would you say what you mean by the teaching of the cooperative idea in the matter of management?

A. Education pertains to the provinces, but it seems to me the encouragement which the federal government, the federal government's state paternalism in this matter, justifies the teaching staffs in the province of Quebec to give courses on cooperation to the detriment of private initiative, and more than that, to show that private initiative is a dishonest enterprise.

MR. MR. NADEAU:

Q. You are saying something there that is quite serious.

A. I will give examples.

BY MR. BROSSARD:

Q. You claim that the only federal legislative provision that enables you to assure that federal legislation protects cooperatives is the exemption granted by one of the provisions of the Income Tax Act? A. It is one of the grounds that justifies the teaching staff to say: "we are doing right, since the federal government protects this type of trade; we are in order."

Q. Do you claim that this provision of the federal act can justify, as you contend, certain educators to teach that private initiative was guilty of abuses and that cooperatives constitute the means to combat the abuses of private enterprises?

A. If it cannot combat it, it is a reason that carries some weight.

Q. By advocating cooperatism? A. Yes.

Q. But not for the reasons you have mentioned? A. What reasons?

Q. You mentioned that it was because private enterprise has been guilty of serious abuses? A. No. But they preach that private enterprise committed abuses, that it should be curbed and should be prosecuted.

Q. If that is preached it is not necessarily true?
A. No, it is not because it is true.

Q. In your memorandum, you do not accept responsibility for the statement, among others: "cooperative ideas earnestly tend to socialization and in order to enhance their cause make unfair attacks on private enterprise." You do not accept responsibility for that? A. What do you mean?

Q. Are you of the opinion that cooperatism, in order to enhance its cause, makes unfair attacks on private initiative?

A. That is alike, my opinion and that of la Chambre de Commerce.

Q. Will you say in what, in order to enhance its cause, it makes unfair attacks on private initiative?

A. By the propaganda I have just mentioned to you, by indulging in the propaganda I referred to a moment ago.

Q. That would not be cooperatism, those whose office is that of educators are the ones who preach cooperatism?

A. Last year, in a little review forwarded to the young school children, a publication entitled "Le Petit Francois", I cannot give you the month in which the review was published, it was stated by way of illustration the students of the Seminaries of Nicolet and Mont-Laurier were taught to form themselves into cooperatives in order to guard against big profiteers enriching themselves at the expense of the poor miserable beings of society.

BY MR. NADEAU:

Q. Have you that little booklet? A. I have not got it to-day.

Q. Can you get it? A. If the editorial staff will give it to me, I will certainly forward it to you.

BY THE CHAIRMAN:

Q. Tell me who is the author? A. I am unable to tell you, though I have tried to find out.

BY MR. BROSSARD:

Q. Is it a pamphlet? A. It is an illustrated review, in colours, well edited, attractive for the children, paragraphs are published here and there, and some very commendable and appropriate things for the needs of children are advocated, and at certain places, there are paragraphs that insinuate.

BY THE CHAIRMAN:

Q. I should very much like to see that.

A. I will do all I can to secure a copy for you.

BY MR. BROSSARD:

Q. Is the statements of la Chambre de Commerce of LaSarre that cooperative ideas earnestly tend to socialization and that in order to enhance their cause make unfair attacks on private initiative, based solely on the fact that this little pamphlet was circulated in your district? A. No, apart from that, When "La Moissonneuse" cooperative to which I referred a moment ago was founded in our locality, circulars were distributed, they said, for instance, it was a grocery store -- "To get the weight, apply to La Moissonneuse". That is more or less tendentious.

BY MR. NADEAU:

Q. Have you got those circulars? A. I would have to make inquiries to make certain that I have them. It was stated: "If you want to have the weight and the measure, buy at la Moissonneuse." We can supply them to you; we have not got them here, but it would be quite easy for us to supply you with them.

BY THE CHAIRMAN: Q. The soonest possible?

A. As for "Le Petit Francois", I will do my utmost to get copies for you.

BY MR. BROSSARD:

Q. Have you other reasons for stating that cooperative ideas make unfair attacks on private enterprise? A. It is the teaching in the school, and this tendentious propaganda that are harmful to private enterprise and trade, and the mentality that exists in our region, I do not know exactly what it is.

Q. When before the Commission, you must make statements that can be confirmed.

BY THE CHAIRMAN:

Q. In what way do you experience the harm you claim?

A. Presently, no harm.

BY MR. NADEAU:

Q. La Chambre de Commerce? A. This question was studied especially from a moral standpoint.

BY THE CHAIRMAN:

Q. You are not a merchant?

A. Yes, I am a merchant, but this kind of business does not affect me; I operate a 5, 10 and 15 cent store.

BY MR. BROSSARD:

Q. Cooperatives were studied from a moral standpoint?

A. Yes, from the standpoint of warping judgment.

BY THE CHAIRMAN:

Q. A question of principle? A. Yes.

BY MR. BROSSARD:

Q. It is not because private enterprise in your district is suffering from disastrous competition on the part of cooperatives? A. No, no person is presently suffering disaster on that score.

Q. You have no cause to complain of the commercial methods

employed by cooperatives in your region? A. At the present time people complain of the methods and things that militate in their favour and operate to our detriment, but their method, we ...

Q. You have just stated that you did not suffer thereby up to the present.

A. From a monetary standpoint, no, but from the standpoint of reputation, I consider myself an honest man, and all the merchants consider themselves honest men, and it is in that connection that complaint is voiced; it is not with reference to the dollar that immediately finds its way into our pocket; that is not important.

BY THE CHAIRMAN:

Q. Competition is not the basis of the complaint?

A. No, perhaps others would have cause to complain of the Cooperative Federee's competition, only, we did not want to dwell on that.

BY MR. NADEAU:

Q. Do you personally know why others might complain of competition on the part of the Cooperative Federee?

A. They could not complain because the Cooperative Federee does not indulge in competition; it cannot engage in competition, because Only from the standpoint that the Cooperative does a big business and is not taxed.

Q. Complete your sentence. You say: "it cannot indulge in competition because..." A. Because there are not enough people sufficiently interested to withdraw everything that can be taken out from there and the management becomes too costly and cannot compete with private enterprise.

Q. Notwithstanding the fact that the Cooperative Federee is not required to pay the income tax, you hold that, in your region, it cannot succeed in competing profitably with private enterprise? A. In the matter of prices, no. In the

field of propaganda, perhaps a little.

Q. Would you give a few explanations with reference to the statement contained in paragraph 3 of your memorandum, to the effect that preferential legislation governing co-operatives is unfair to free enterprise and state what laws are in question and in what way you deem them to be unfair?

A. The Income Tax Act is the law in question and, seeing that this business operates on the same basis as other businesses, it should be taxed.

Q. What business have you in mind? You say "that business". A. The cooperatives.

Q. All cooperatives? A. Consumer cooperatives especially; and as for producer cooperatives, no special studies have been made with reference to them.

Q. Therefore, let us confine ourselves to consumer cooperatives. A. Yes.

Q. As for them, you hold that the laws involving exemptions constitute an injustice to free enterprise? A. Yes.

Q. Why? A. Precisely because free enterprise is compelled to pay taxes and that such a business is not compelled to pay any. Thus, this enables it to engage in unfair competition. If it were compelled to pay taxes, competition would be still less marked; management would be more costly and this would constitute a still greater obstacle to consumer cooperatives and would result in more justice for private enterprise.

Q. In your conclusions, you make statements that appear to be quite serious. The memorandum states in the first place that the cooperative system checks initiative, because it destroys harmony and divides classes, because it preaches fallacy and hate. What you say there is serious.

A. Quite so, it is serious, but before writing that we

worked for two years and we have pondered the matter seriously.

Q. Only, the Commission must weigh the statements you make before it, and you must explain why.

BY MR. NADEAU:

Q. The Commission is especially anxious to get facts; it welcomes opinions with pleasure; but facts are what it wants particularly. On what facts do you base your conclusions?

A. It is because when they arrange to found a consumer cooperative store, they address themselves to a certain class, they engage in propaganda. It took two, three years in our locality before they succeeded in gathering a sufficient group to found a consumer cooperative. They sent out appeals in every way, and when I say that fallacy was preached it is because the members were promised that they would pay much less, and, after two years of operation, that is what resulted. Then, they promised patronage dividends that have not yet been paid. Furthermore, hatred, well, they have divided two groups, and it happens that to-day there is a group for private enterprise and a group supporting cooperation.

BY THE CHAIRMAN:

Q. Is that carried to any lengths?

A. Yes, they quarrel, they abuse one another, excuse the expression.

BY MR. BROSSARD:

Q. You are always referring to LaSarre? A. Yes, at LaSarre and in the whole region of Abitibi.

BY MR. NADEAU:

Q. How marked is this dissension with reference to cooperatives in your region?

A. It is perhaps no more marked in our locality than it is elsewhere, but this dissension is acute to the point that the people engaged in private enterprise are looked upon by that

group as having been exploiters, batteners on the French Canadians or other names they are wont to apply to them, and these are played up in every way in meetings and little propaganda movements.

BY MR. BROSSARD:

Q. In a word, you do not complain so much about competition arising from the cooperative's business methods, as you do of the tactics used to spread the cooperative idea in your district?

A. Yes. We have a clause in which it is said they sell to every one they want to, to the public, the clause in which it is said the cooperatives violate the laws.

BY MR. NADEAU:

Q. Unless you have witnesses, that is not evidence.

A. We have witnesses who will say they purchased there.

BY THE CHAIRMAN:

Q. What is the percentage sold to the public?

A. I do not know.

Montreal Milk Producers' Co-operative
Agricultural Association

MR. PARKER: Mr. Chairman, we might take next the Montreal Milk Producers Agricultural Association, which I believe is represented by Mr. Long as counsel, and there are some officials of the Association who wish to verify the allegations made. I am not sure whether they have yet arrived, but they will be heard after lunch; and we might utilize the remaining time by having the brief read.

MR. LONG: My lord, I must apologize for the absence of the witnesses in support of my brief; they were under the impression that this morning would be pretty well taken up with arranging the tour de role.

THE CHAIRMAN: Perhaps you might read the brief before the adjournment for lunch.

MR. LONG: If you have no objection I shall be glad to read it.

This is the brief of the Montreal Milk Producers' Co-operative Agricultural Association. I may say at the outset, lest there should be some confusion arising out of the name, that this is the Association of the farmers who milk the cow and send the produce in to the Montreal market.

"History of the Association:

"Organized originally in 1900, this Association was incorporated in 1919, under the Co-Operative Agricultural Association Act. (1941 Revised Statutes of the Province of Quebec, Chapter 120) The shareholder members must subscribe for at least one share of stock of the par value of \$10, and not more than three shares and voting by proxy is not permitted. Each subscribing member is obliged to sign a membership agreement, in the form of Schedule A, authorizing

the association to act as his agent in the disposal of his milk and agreeing to pay to the association a commission 'either directly or through others on all milk shipped by him.'

I think I might read briefly the contract, which is indicative of the nature of the whole cooperative. It is schedule "A" attached to the brief.

THE CHAIRMAN: Perhaps only the salient features of it, Mr. Long.

MR. LONG: By this contract the member of the cooperative association agrees to carry on his whole business of supplying milk in the district of Montreal through the Association, and the Association agrees to further the interests of the member to the fullest extent in its power, excepting when his interest may conflict with the common interest of members of the Association.

"4. To the extent that its income shall warrant, the Association undertakes to provide the following services for the member:

"To maintain a business office to which he may apply for assistance at any time;

To provide on request, information on the financial standing of any dealer, and on the condition of the market;

To assist him in every reasonable way to place his milk or cream with a satisfactory dealer;

To make every effort to arrange for reasonable prices and conditions of shipping upon the markets within the scope of this agreement;

To investigate his complaints against dealers, railways or others, and in so far as possible to obtain a satisfactory adjustment of such complaints;

To assist him in such other ways as may be possible."

Then paragraph 5 says:

"5. The Member agrees that he will conform to all arrangements made by The Association for its members, and in particular that he will not ship either directly or indirectly to any market within the scope of this agreement excepting at the price and under the conditions arranged by the Association, providing, however, that any member complying with the special requirements of any purchaser of his milk or cream shall be entitled to such higher price as the purchaser agrees to pay."

THE CHAIRMAN: Is he precluded from selling to or dealing with anyone else?

MR. LONG: He is, my lord, except with special permission. To revert to the Brief:

"Form of the Association:

"There are local branches in the principal milk shipping districts, each with its own set of officers, and a central organization with a permanent office in Montreal, which controls the local branches.

"To-day, the Association has 4,000 members who supply more than ninety per cent of the milk required by the Greater Montreal Market.

"Purpose of the Association:

"To promote orderly marketing and transportation of milk; to encourage efficiency in production; to apply to the market the Co-operative principle of control, by the producer, of the product until it reaches the door of the buyer.

"Depression Years:

"In 1931, 1932 and 1933, the Montreal market became thoroughly disorganized and many milk producers were receiving as little as fifty cents per one hundred pounds for their

milk. This ridiculous price was mainly due to the fact that the Montreal milk dealers were in the habit of purchasing more milk than their daily requirements called for and paying the regular price for only a percentage of their receipts. They paid a very low price for the balance, claiming that they had to separate the 'surplus' quantity, make butter from the cream and pour the skim milk down the sewer.

"Quebec Dairy Industry Commission Appointed:

"The above situation simply meant ruination for the milk producer and in 1931 this Association asked the Quebec Minister of Agriculture to appoint a Commission to inquire into the Dairy Industry in the Province. On the 11th of August, 1931, the Quebec Legislature appointed a temporary Commission which had sittings at various centres. The temporary Commission reported that a permanent Commission should be appointed to control, supervise and regulate the Dairy Industry in the Province. In May, 1934, the Quebec Dairy Industry Commission was created and under date of 7th of July, 1934, the Commission issued Ordinance No. 1 making it obligatory for the milk dealers of Montreal and District to pay the legal price for all the milk they received.

"Surplus Milk Plant Established:

"The above wise and progressive order has had a most beneficial effect on the Montreal market and it resulted in the establishment, in January 1935, by the Montreal Milk Producers' Association, of a 'surplus milk' plant in Montreal, in order to take care of the milk of its members that the dealers, from time to time, did not require, but which was bound to reach the Montreal market because, in many cases, no other outlet was available to the milk producer,

country butter and cheese factories having largely disappeared from a great part of the area supplying milk to Montreal. It was realized by the association that unless a surplus milk plant was established, it would be impossible to maintain in full effect the order of the commission compelling the dealer to pay the legal price established by the Commission for all the milk he received.

"The members of the Association furnished capital to the amount of \$15,920.00, through the purchase of \$10 shares, and for this capital, most of which was furnished in the early years of the Association, no return has been made, with the exception of one payment, in 1940, of six per cent, as interest on the paid-up shares. Of course, the above amount of capital was not sufficient to purchase all the necessary plant equipment and it was decided, by the Association, that, instead of calling for more capital from time to time, the full net proceeds derived from the operations of the plant should not be returned to the member-suppliers, but that a certain amount should be retained in order to build up a reserve for the purpose of liquidating the plant liabilities and also for future plant expansion that undoubtedly would be required."

MR. NADEAU: I should like to ask Mr. Long to furnish the Commission with a financial statement, and a copy of the by-laws, if possible.

MR. LONG: I know I can supply the financial statement; I am not sure about the by-laws. If none are available at the moment we will have some run off.

At 12.20 p.m. the Commission adjourned until 2.15 p.m.

Afternoon Session

Upon resuming pursuant to adjournment!

MR. LONG: May it please the Commission, I was asked by one of the members of the Commission to produce copies of the financial statement and of the by-laws; these I now produce, ten copies of each. If I may continue, then, with the brief:

"Revenue of the Association:

"The revenue derived by the Association is of two kinds. In the first place, half cent per one hundred pounds is contributed by its members who ship milk to the city of Montreal. This half cent is collected monthly through milk dealers by the Quebec Dairy Commission and is paid over by the Commission to the Montreal Milk Producers' Association in proportion to the quantity of milk supplied by its members. For instance, I quote from the Dairy Commission's order currently in force, (Order No. 1-E-42a, dated 18th of August, 1942, copy of which is attached hereto as Exhibit B):

"The milk dealers must pay to their producers - suppliers for each one hundred pounds of milk ... \$2.50 $\frac{1}{2}$ f.o.b., Montreal, and from this sum remit into the hands of the Dairy Industry Commission of the Province of Quebec, half a cent for each one hundred pounds of milk received. The product of the sum so remitted will be used as follows: part of it will be given to the Milk Producers' Association of Montreal, in proportion of the quantities furnished to milk dealers by the regular members of this Association, and the other part will be used by the Commission in the general interest of the dairy industry of the region of Montreal."

"In other words, the price is \$2.50 $\frac{1}{2}$ but the producer receives directly from his milk dealer only \$2.50 and half a cent comes to the Association.

"The second source of revenue comes from the operation of the surplus milk plant, and, as already explained, the full margin between the revenue received from sales of milk, cream, butter, etc., ... is not paid back to the producers but a part is retained in the form of surplus to be used for further extension of the service for the benefit of the member-suppliers.

"Does not Compete with Milk Dealers:

"The Montreal Milk Producers' Association has always been careful not to compete with the milk dealers of the City of Montreal. For instance, the only milk we sell is in wholesale quantities to one chocolate manufacturer and to one soup manufacturer and this is done under the supervision of the Dairy Commission. These manufacturers must buy milk at less than the legal wholesale price in order to compete with the products coming from other provinces where the cost of such milk is lower. The Association sells cream only to milk dealers and most of the butter made by it is bought by milk dealers for distribution to their customers. I wish to emphasize the fact that the Association, in its general activities and in the operation of its Montreal plant, is of benefit to the milk dealers of Montreal as well as to its members. In the first place, the dealers have an Association to deal with instead of thousands of individual producers and, in the second place, the Association plant has proved of great value to the dealers as a place where they can divert their surplus receipts easily and quickly. In addition, the dealers have available a daily supply of freshly separated cream of the highest quality and at

a reasonable price.

"Cooperative Organizations vs. Private Enterprise:

"The Montreal Milk Producers' Association is truly cooperative; it handles only the milk of its own members and its object is to furnish service at cost to its members. Its members have banded together to handle their own product and the surplus over cost of the service rendered by their Association remains the property of its members. It has been well said that the basis of private enterprise is self-interest but that the basis of cooperation is the common-good. It has been recognized for a number of years by the Dominion Government that surpluses resulting from business done by cooperative associations, for their own members, are different from profits made by firms, companies or individuals doing business with the public and that what the enemies of cooperative organizations call 'profits' are really 'savings' that belong to the members of the true cooperative. If the government should heed the clamour of those who are seeking to cripple the expansion of cooperative agricultural associations in Canada and attempt to tax their surplus funds, the result simply would be that such surpluses will be cut down to the smallest possible margin and there would be nothing therefore for the government to tax. By all means, tax the individual for the income he receives, including what he gets from his cooperative enterprises, but leave the surplus in a genuine cooperative association alone.

"United Nations' Attitude towards Cooperatives:

"In conclusion, I quote the recommendation made by the conference of the 'United Nations' on Food and Agriculture, at Hot Springs, Virginia, in 1943, when a resolution was adopted containing the following clauses:

"That, in order to make it possible for people to help themselves in lowering costs of production and costs of distribution and marketing:

""(a) All countries study the possibility of the further establishment of producer and consumer cooperative societies in order to render necessary production, marketing, purchasing, finance and other services;

""(b) Each nation examine its laws, regulations, and institutions to determine if legal or institutional obstacles to cooperative development exist, in order to make desirable adjustments.'

"SUMMARY

"(1) The Montreal Milk Producers' Association is a genuine cooperative organization as it handles only the product of its members.

"(2) The surplus it accumulates each year belongs to its members and is partly derived from a direct fee paid by them and from the surplus of sales over payments which is retained for plant expansion.

"(3) The Association has paid its own way from its inception and has never asked for or received government financial support.

"(4) The operation of its surplus milk plant has been beneficial to the milk dealers of Montreal in that they can hold the quantity of milk purchased very closely to their sales by diverting to the Association plant whatever excess they may receive; in addition, they can draw upon the Association plant whenever they are caught short of milk, through a drop in their supply or an unexpected increase in sales. Also a large supply of high grade cream is available at reasonable cost. Furthermore, the Association

in its sales does not compete with the milk dealers.

"Respectfully submitted on behalf of the Board of Directors,

W. A. Moore,

Secretary-Manager."

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Now, may it please the Commission, I have two witnesses here in support of our submission. I have Mr. Lowe, of the head office of the Association, who will be pleased to answer any questions as to the financial set-up, and I have Mr. Carr, one of the original organizers of the Association, Vice-President and Director, who will also give any information that may be required.

THE CHAIRMAN: Will you put them in the box and have them sworn, Mr. Long.

W. L. CARR

Member of the board of directors and executive committee, Montreal Milk Producers' Co-operative Agricultural Association, having been duly sworn, testified as follows:

BY MR. PARKER:

Q. Mr. Carr, what is your official position with this company?

MR. LONG: It is not a company. It is a cooperative incorporated under the Quebec Cooperatives Act.

THE CHAIRMAN: It is an association.

MR. PARKER: Association; all right.

THE WITNESS: I am a member of the board of directors and of the executive committee.

BY MR. PARKER:

Q. How long have you been such? A. I have been on the board of directors ever since the organization as a

cooperative in 1919. I have been president of the Association and vice-president at various times, and in 1919 was organizer and secretary and manager.

Q. Can you tell me what your members have to do to become members of the association? A. Membership in general consists in the signing of the association agreement. I think you have copies.

MR. LONG: It is schedule "A".

THE WITNESS: It is schedule "A" -- the association agreement, and the agreement to pay an annual fee.

BY MR. PARKER:

Q. How much? A. The minimum annual fee is fifty cents. That is to local branches. That admits a member --

Q. Just a moment, please; I am talking about this association, not the branches. A. Well, the central association consists of a core of shareholder members who pay ten dollars per share for membership stock in the association.

Q. Are there four thousand shareholders in your company? A. No, but there can be at any time the members wish.

Q. You see, I wasn't asking you what there could be; I was merely asking how many there are. Can you tell me approximately? A. I haven't that number; Mr. Lowe will have that number.

MR. LOWE: 1,400.

MR. CARR: 1,400.

BY MR. PARKER:

Q. 1,400 shareholders who have bought shares in this association? A. Bought ten-dollar shares, yes.

Q. Do they have just one share each? A. That is the general rule. There are a few who have two.

Q. But not more than two? A. Not more than two, I think.

Q. But in addition to these shareholders you have members; what are they? A. Associate members who have signed the association agreement, who have agreed on the terms that you have before you.

Q. And who are milk producers? A. Who are milk producers.

Q. Are all the shareholders also members? That is, as a milk producer? A. Yes, they have also signed the association agreement.

Q. Now, how is the money handled that is received by the company from the sale of its shares? A. It is invested in trust funds, Dominion bonds, and it is in treasury.

Q. Is there any obligation on the association to pay back the price of these shares to any shareholder if and when he demands it? A. There is no obligation, but we do. Those shares are transferable.

Q. But are they what I call redeemable? Does the Company wash them out by buying the share capital back? A. We do not make a practice of buying them in. I do not believe it is allowed.

Q. I have not read your document; is it permissible under your set-up to do that? A. But they are transferred.

Q. I am not talking about transfer; please talk about what I want to talk about. Can you tell me without referring to any of the documents whether the association has the right to buy in its own shares and pay off that share capital? If you do not know, all right.

A. I don't know.

Q. Anyway, that is one source from which the

association gets money -- by the sale of its shares? A. Yes, it has been. It was commenced that way.

Q. Well, it is yet? A. Anybody who has shipped milk can buy shares.

Q. I am simply trying to sum it up so that we can get a clear picture. That is one source from which the association receives its capital -- by the sale of its shares?

A. Yes.

Q. And so far as you are aware it has no obligation to pay that back to the members on demand? A. If the association should be wound up the assets would have to be paid out to the shareholder members.

Q. That may be, the same as any ordinary company?

A. I do not know about ordinary companies.

Q. Now then, in addition to that source the association also gets, as I understand it, a part of that one-half cent per hundred pounds of milk; is that right? A. Yes.

Q. And that is paid to the Association by the Dairy Commission? A. Yes.

Q. What part of the one-half cent is paid to the association? A. In the neighbourhood of ninety per cent, --that is according to the proportion of whole milk that is shipped in by the members of the association; around ninety per cent.

Q. Put it this way: for every hundred pounds of milk shipped by your producer members to the dealers, a half cent per hundred pounds is paid to the Dairy Commission, and of the aggregate of these one-half cents, ninety per cent of it is paid back to the association; is that right -- about ninety per cent? A. About ninety per cent of the total that is collected by the Dairy Commission.

Q. That is one half cent per hundred pounds, is it?

A. Yes.

Q. Roughly how much does that amount to in an ordinary year, say last year -- can you tell me in round figures?

A. I could refer to the statement; I think you have copies of this statement -- \$12,118.

Q. "Association revenue: received from members" -- is that the item? A. \$12,118.91.

Q. That is the aggregate of the ninety per cent of this one-half cent per hundred pounds? A. Yes.

Q. That is for the year ended December 15, 1944? A. Yes.

Q. Now, what is done with the money that is received by the association from year to year? A. It is used for general association expenditures, communications with members, expenses of the board of directors.

Q. Repairs and replacement to the plant? A. No. It is used for association purposes, organization purposes, -- that is, visiting parts of the district which are not now well organized, holding meetings, and also --

Q. May I ask, before you go on -- that is with the idea of organizing more branches? A. Yes, and we contribute to the dairy farmers of Canada national organization.

Q. Those are set out in the statement, I suppose? A. Oh yes, those are in the statement.

Q. Then these are the two sources from which the association secures capital. Now, do I understand correctly that all surplus milk which the dealers are unable to dispose of through ordinary channels is handed over to the association to be processed, made into butter -- is that it, or whatever you do with it?

A. It is consigned to the association plant by the members of the association.

Q. Now, is it; that is what I want to get at. A. Yes.

Q. Doesn't the Dairy Commission compel the producer to tell the dealer to take all the milk which the producer sends to him? A. No.

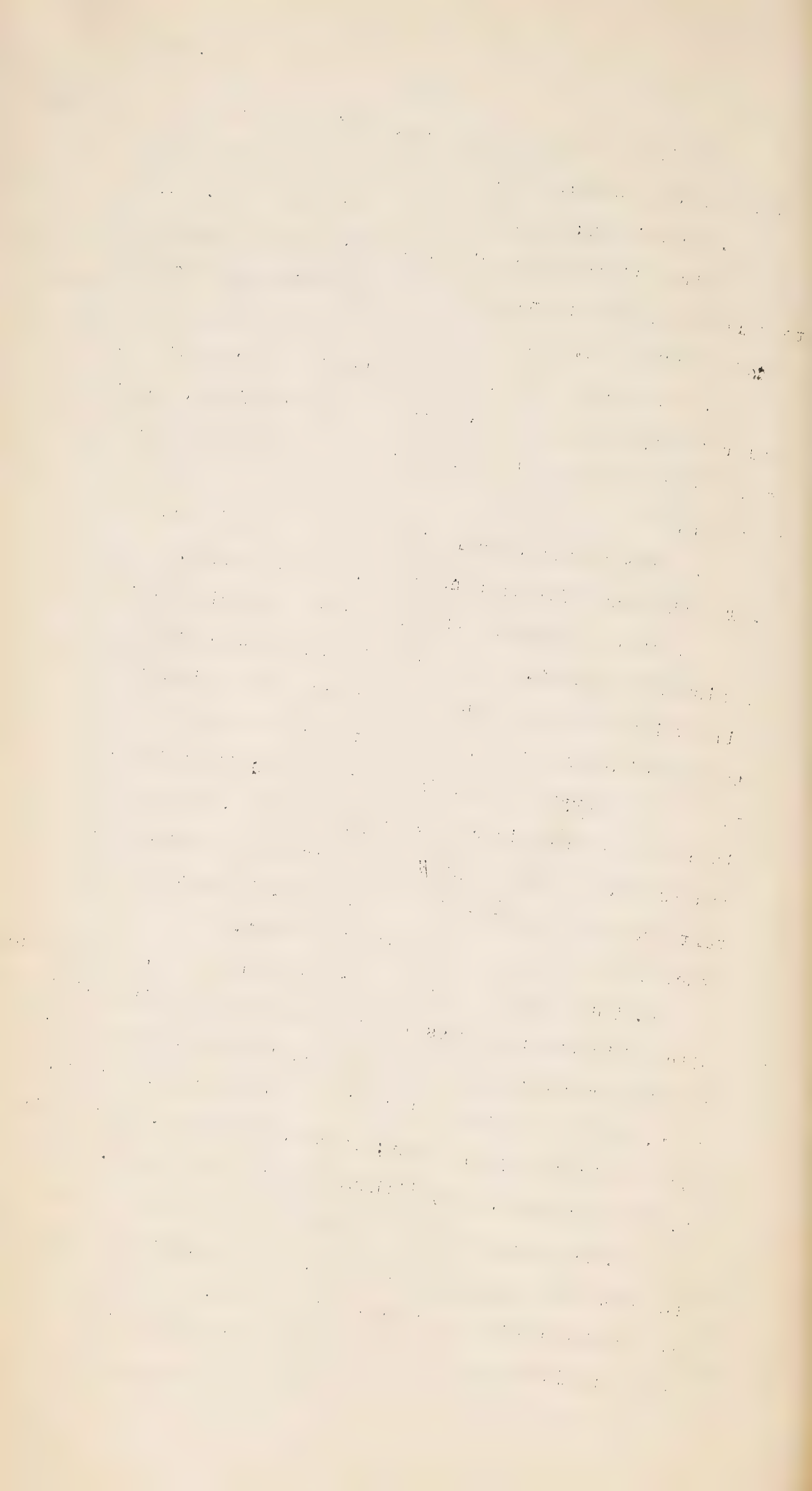
Q. How much? A. The Dairy Commission compels the dealer to pay the full price for the milk he takes, but they do not compel him or attempt to compel him to take more than he needs.

Q. They do not compel him to distribute it all?
A. To take more milk than he needs, than he wants.

Q. That is what I understood from the brief; perhaps I misunderstood it. How does the association get the milk which it puts through its plant? From whom does the association get it, and under what terms? Tell us the whole story? A. The members send it to them; it comes to them directly from the members, on the same trucks usually as the milk coming to the dealers. The part that the dealer has not purchased is left on the truck and taken to the association plant.

Q. Take a typical case; a truck drives off, we will say, with a big load; he goes to the dealer and he finds that the dealer cannot take that day all that he brings to his door; the dealer takes what his requirements are and the truck drives to your plant; is that it? A. That is it in a general way, yes, without going into details.

Q. Each dealer decides from day to day what he wants to meet his requirements? A. He is supposed to give the producer notice so many hours ahead, and the milk comes in just the same on the truck but is consigned to



the association plant instead of the dealer.

Q. That is what bothers me- when is the consignment made by the producer -- before he finds out how much the dealer wants, or after he finds out how much the dealer wants, and then does he consign the balance? What is the procedure?

A. The producer is supposed to have forty-eight hours notice of how much the dealer will take from him, and he knows how much the dealer is going to take by that notice; he sends the balance to the association plant if he feels like it.

Q. Are there any written documents indicating the terms under which that milk is delivered to the association?

A. No.

Q. Where do we go to find the terms under which that transaction takes place? You are calling it consignment; I just want to make sure that is what it is. A. It is not purchased by the association. It arrives at the plant; it is manufactured --

Q. I know. A. --and at the end of the month the accounts are cast up and it is found how much can be paid per pound butter fat for the milk received that month, and that is what the member receives for the amount that he shipped to the plant.

Q. But before the manufacturing process takes place at all, when the man delivers his milk to the association, I want to know on what terms he delivers it and what is the obligation of the association with respect to him?

A. The association is under obligation to manufacture or to dispose of that milk to the best of their ability and put the money into the common fund.

Q. What common fund? A. The pool -- the pool of that month's milk, all the milk received, which means the milk is not kept separate..

Q. I understand; all the proceeds from that surplus milk shall we call it, are put in one fund by the association? A. In a pool.

Q. At the end of the month? A. And the association is of course under obligation to pay the member for the amount of milk that he shipped.

Q. The entire gross proceeds of sale, or what deductions are made? A. The deductions for plant operation for the month and all the overhead for the month, et cetera, et cetera.

Q. And by overhead you mean certain reserves, a certain amount is taken out for reserves? A. If you don't mind my saying this, Mr. Lowe is our bookkeeper and he is much more familiar with the figures end of this than I am.

Q. I do not care about the exact amount; I am only talking about the principle. I am saying that out of the gross proceeds of the sale of that surplus milk, you may call it -- I want to find out exactly what is done with it. First there is your overhead, which you tell me is deducted; then is there included in that overhead an item for reserves? Is a certain amount set aside by the association for reserve fund? A. Yes, as decided by the Board, there are certain amounts set aside for reserves.

Q. Decided by the board; and generally what principle do they follow? Is it a certain percentage, so much per pound butter fat, or what? A. No.

Q. How is it decided? A. They decide according to the exigencies of the occasion. We have plant repairs for instance that are spread over certain periods, certain lengths of time; purchases --

Q. Expansions? A. And expansions.

Q. New equipment and that sort of thing? A. Yes.

Q. Such amount as the directors may think is sound policy to keep the plant up to date? A. Exactly.

Q. And meet the situation as they may face it? A. Yes.

Q. All right. Having set aside that amount, that general reserve -- is that a fair way to describe it?

A. As I said before, I am not familiar with all these terms.

Q. Then how do they decide how much they will pay the producer per pound butter fat? Is all that is left paid out without making deductions? A. I am afraid I do not get your question.

Q. Let us put it this way. Suppose you have \$100, just to illustrate my point, representing the gross proceeds of the month's supply of surplus milk. You set aside your overhead expenses, we will say, \$50; then you will take say \$25 and put that in your reserve fund; that still leaves \$25. Does that go back to the members in proportion to the amount of butter fat that they supplied? A. Yes.

Q. So that under these three headings we account for the entire gross proceeds -- namely, general expenses, reserve, and payment back to the members? A. I take it that is right.

Q. Now, as to these reserves, is there issued to the members any kind of document or promissory note or any other undertaking that those members will have an undivided practical interest in those reserves? A. No.

Q. Not a thing? A. No, there are no documents.

Q. And this system you have described has been in operation since about 1919? A. The organization of the cooperative was in 1919. It was purely a selling

cooperative at that time. The surplus plant has been in operation since 1935, I believe.

Q. All right; we will deal with from 1935 on.

A. About ten years.

Q. From 1935, then, down to date, that is nine or ten years, it has been operating on this principle which we have mentioned. Let us go back for a moment to this producers' agreement; there is nothing to indicate that any milk is to be either sold to the association or consigned to the association, is there? Are you familiar with this agreement?

A. I think there is. Pardon me if I have not read that today, but whatever is indicated there is our agreement.

Q. I did not see anything myself, though I read it hastily. In other words your association is what might be called a bargaining association? A. First of all it was.

Q. And is yet? A. Yes.

Q. Primarily a bargaining association? A. That is its primary purpose.

Q. It is an association to make a contract on behalf of the producer with the dealer? A. Yes.

Q. Is that right? A. That is right.

Q. And there is nothing in the written agreement that obligates the association to pay the producer member anything, is there? A. No.

Q. Is there anything in the by-laws of the association which could be construed as being an obligation on behalf of the association to pay the members anything, of which you are aware? A. No.

Q. Now, during that nineteen years, by the use of the share capital of \$14,000 odd that you have raised,

and with those reserves, holdbacks -- call them what you like -- you have succeeded in building this plant which you now have. A. Over what period?

Q. Since 1935. A. Since 1935, yes.

Q. The plant was not built until 1935. So that to defray the cost of that plant you used the share capital that you have -- the money derived from the sale of shares ?
A. Yes.

Q. And you supplemented that in the first instance with borrowed money, I take it, from the bank? A. Yes.

Q. Which has since been paid off out of these moneys held back from these two sources -- that is the half cent plus the surplus earnings out of the processing; is that correct? A. Yes.

Q. To-day the total value of that plant and equipment is about how much? Perhaps you would refer to your statement. As I understand it, according to your statement the cost value of that plant is \$64,837, and it has been written down to one dollar; is that right? A. That would be right.

Q. In addition to that the association now holds assets of what? The figures show you have assets of \$112,834.45, plus the plant which is carried at one dollar, which is arrived at by taking \$139,900.37 gross assets, less liabilities to the public of \$27,000; right?

A. That is right. It includes the capital stock, of course, of \$16,000 -- that is, \$15,920.

Q. We are talking about assets now. A. Yes.

Q. I do not care about the exact dollar, but it is very substantial -- well over a hundred thousand dollars?
A. It is in that neighbourhood.

Q. Now, during that period has the association ever made any income tax return to the Department of National Revenue? A. No, it has not been required to.

Q. Why hasn't it? A. I wouldn't be familiar with that.

Q. You wouldn't be familiar with what? A. With whether it has been required to make an income tax return.

Q. You as director, I take it, are sufficiently familiar

-- A. As directors we have been familiar with the fact that we have not had to pay income taxes.

Q. As a director, I was going to suggest, you have had knowledge that there is a dominion income tax? A. Yes.

Q. And that generally everybody should make returns and let the department decide whether they were taxable or not; is that your understanding of it? A. I have not been bookkeeper, sir. I have not been familiar with these returns. They may have been made.

Q. Have you any knowledge or record in your personal capacity of having been advised by the Income Tax Department that you are not taxable and that you were relieved from the necessity of making returns? A. No, I haven't.

Q. In other words you just never gave it any attention one way or the other? A. I left that to our board of management, and I believe they were correct.

Q. Now, let us turn to your brief which has been read. I take it you assisted in the preparation of this brief? A. No. I have read it.

Q. You have read it; you are familiar with it? A. It has been submitted to me, yes.

Q. And you approve of it? A. Yes.

Q. It sets forth the story correctly, and the facts stated therein are true, are they, to the best of your

knowledge? A. Yes.

Q. Are they within your knowledge, the facts stated in the brief? A. Yes, the facts set out are to the best of my knowledge correct.

Q. There are just one or two questions I want to bring to your attention. Referring to the first paragraph of your brief, I do not quite understand it, the last part -- "Each subscribing member is obliged to sign a membership agreement, in the form of Schedule A, authorizing the Association to act as his agent in the disposal of his milk and agreeing to pay to the Association a commission 'either directly or through others on all milk shipped by him.'" In other words the association is a sort of commission house, if you are to judge from that. A. A bargaining association, I think we called it.

Q. As a bargaining association, then, it gets paid a commission for the produce it bargains for. We will put it that way, then; is that right? A. It gets its revenue from --

Q. Is that right -- "agreeing to pay to the association a commission either directly or through others on all milk shipped by him." Is that correct, or isn't it?

A. It is I think in the agreement there. It is in this agreement.

Q. Have you any objection to saying this association is a sort of commission house, transacting business and being remunerated --

MR. LONG: Give your own interpretation of it and let learned counsel give his.

THE WITNESS: I would rather he did that.

MR. PARKER: There is no compulsion to answer questions at all. You can refuse to answer any if you so desire.

THE WITNESS: I want to help you all I can.

MR. LONG: The question is unfair, Mr. Parker.

MR. PARKER: I do not think so, but if it is unfair I will gladly withdraw it. I did not intend it to be unfair. (To the Witness):

Q. Go on to the next paragraph: "There are local branches in the principal milk shipping districts, each with its own set of officers, and a central organization with a permanent office in Montreal." That central organization -- do I understand that is your association? A. Yes, that is the cooperative.

Q. What is the connection between the local branches, so-called, and the central organization? A. The local branch is a group of members of the central organization who live near to each other, in the same county or same centre.

Q. Do these branches have any corporate existence? A. They are not incorporated.

Q. They are what might be called glorified committees? A. Yes.

BY THE CHAIRMAN:

Q. Your association is a joint stock company? A. It is a cooperative; I don't know whether you would call it a joint stock company.

THE CHAIRMAN: Under the provisions of the Quebec Statute, it is a joint stock company. Look at section 1973.

MR. LONG: Under the provisions of the Cooperatives Act, my lord.

THE CHAIRMAN: Look at 1973:

"Each association shall be a joint stock company, the responsibility of its members or

shareholders being limited
to the amount of their
respective holdings."

MR. PARKER: This is what I was coming to.

THE CHAIRMAN: It is set out in your by-laws.

MR. PARKER: My learned friend objected a while ago to my referring to this organization as a company. I thought I was right at the time; apparently was righter than I knew. (To the witness):

Q. So it is a company, isn't it? A. If you interpret it as a company, it may be a company, I don't know. How would I know?

Q. Anyway these branches are not incorporated bodies? A. No, they are not incorporated.

Q. And part of the funds that this association receives is used for the purpose of sending field men out to the various parts of the country to build up more of these branches? A. Yes.

Q. That is part of your general expense? A. Yes.

Q. Now, if you will refer to the bottom of the first page of your brief, I would like to get this clear: "In May, 1934, the Quebec Dairy Industry Commission was created and under date of 7th of July, 1934, the Commission issued Ordinance No. 1 making it obligatory for the milk dealers of Montreal and District to pay the legal price for all the milk they received." In other words the price which the producer receives for his milk from the dealer is fixed by government authority, isn't it? A. Yes.

Q. Does that apply to the milk which is referred to as the surplus milk which goes to your plant? Is that fixed by the same authority? A. No. The Dairy Commission deals only with milk sold as whole milk. They fix only the price of such milk as is sold as whole milk -- milk in its natural

form, fluid.

Q. Fluid milk. Isn't that the basis on which the farmer gets paid for all of it -- the producer gets paid for all of it in your case? A. He gets paid for all of it on that basis -- that the dealer accepts as his needs.

Q. But not what we have referred to as the surplus?
A. No;

Q. He does not get paid on that basis at all; it is on the basis of butter fat? A. The surplus milk which doesn't go into the city, which doesn't need to go in, would be cheese factory or butter factory milk.

Q. In talking about surplus I am talking about milk that goes to your plant, your association plant only. A. Our plant is not the only place it goes.

Q. I am talking now only about your plant.

A. What goes to our plant --

Q. Is paid for on what basis? A. Is paid for as I have already explained at some length; it is manufactured; the proceeds are put in a pool and the producer receives his share at the end of the month.

Q. Of course, but I wanted to make certain in everybody's mind that it was not fixed by the commission. A. No, it is not fixed by the commission.

Q. That is a matter purely between your association and the producer, isn't it? A. Yes. He is not obliged to send it to us.

Q. But there is a connection with that commission; if you will look at the last sentence on the first paragraph of page 2, I would like to clarify this a bit. You say: "It was realized by the Association that unless a surplus milk plant was established it would be impossible to maintain

in full effect the order of the Commission compelling the dealer to pay the legal price established by the Commission for all the milk he received." That is what led me to think the dealer had to take all the milk that the producer would deliver to him. You say that is not so? A. If you want an explanation of that, before the order of the Dairy Commission the dealer paid for some of the milk at the price agreed on with the association, and he paid for some of it at another price which he called the manufacturing price, and he paid for some more of it at the price he called the butter fat price, so that it was impossible for the producer to know how much he was going to get for his milk until he received his cheque at the end of the month.

BY MR. LONG:

Q. Who fixed those proportions? A. Nobody fixed them for him; I presume he fixed them according to his lights, according to his particular market.

Q. That is the purchaser? A. The dealer, the whole milk dealer, who was in the butter business, the skimmed milk business, and various other businesses.

BY MR. PARKER:

Q. There is one other thing I wanted to ask about that ninety per cent of the one half cent per hundred pounds; how is that arrived at? A. It is arrived at by the Dairy Commission on the proportion of milk that our membership to the market.

Q. Then at the top of page 3 you say: "For instance, the only milk we sell is in wholesale quantities." Does your association sell milk that you get from the producers? A. Yes, that is one of the markets that we have. We sell some milk in fluid form for manufacturing purposes to men

who want a small quantity of milk or a certain quantity of milk at odd times -- for instance, the soup people.

Q. There is a certain revenue resulting to your association from that, I suppose, too? A. It is an additional market for our members. That is what it means.

Q. Is there any obligation on your own part to divide that margin with the producer? A. It is the usual business obligation. We receive the man's milk and deal justly with him.

Q. Perhaps you will be good enough to tell me what the usual business obligations are. A. I shall be glad to tell you. For years, sir, I shipped to a cheese factory all the cream I had. They accepted my milk when I brought it there in the morning and at the end of the month they made up a statement for me and gave me a cheque. Those were our business arrangements; those were the notes, the obligatory documents in toto, just what I have told you. And the same thing was true of the milk dealer, until the order of the commission referred to; we shipped him the milk; he accepted it, put it through his plant and at the end of the month he paid us and we did not know how much it was going to be until we got our cheque. But he paid us and we shipped him again the next month and continued to deal with him, hoping always for better conditions.

Q. And there is no doubt in your mind at any rate that this milk that you get from the producers you do not buy from the producers; you receive it on consignment?

A. We do not buy it; we receive it on consignment.

Q. Look at the last paragraph before the section entitled "United Nations"; we come to this troublesome word again -- you talk about real savings that belong to the members of the

true cooperative. I suppose you have the same difficulty as the rest of us in knowing exactly what a true cooperative is. A. I don't know that I have any difficulty.

Q. Now, you are just the man we have been waiting for. Tell us what it is. A. To me the cooperative is an organization of men who are interested in the same thing, the same market, marketing the same produce, and who band themselves together to do that to the best of their ability, who are content to organize and appoint a manager of their cooperative in whose hands they put their business.

Q. To dispose of their product? A. To dispose of their product. And they appoint a board of directors, in their judgment men who will be able to plan their business, to know what reserves they need, to look forward in that business and protect the interests of the members, and apart from the expenses of running the business, and actual overhead, the assets of the business belong to the members of the cooperative. The proceeds are divided among them according to the quantity, according to the volume of business that they do with the cooperative. To my mind that is a cooperative. Of course I have given you a very loose and perhaps sketchy definition, but there is no profit to anybody except the members in the cooperative. Salaries are paid, they are adjusted, they are limited by the decision of the board -- that means really the decision of the members themselves.

Q. Perhaps you could tell me, if that is so, why it is necessary to become incorporated as a joint stock company. Why don't they just get together and do that? Apparently they seem to think a company is of some use in carrying this scheme into effect. A. Some of my friends asked me that the other day.

Q. What was your reply? A. I thought they had not read the act, because the only reason we got incorporated is so that we will be recognized by the law as being capable of making bargains, being capable of bargaining with a man to be a manager, for instance that we will pay him so much a year; being capable of bargaining with the people we sell to, that we will fulfill certain contracts with them; being capable of buying and owning machinery -- that is why we got incorporated.

THE CHAIRMAN: A limitation of liability.

THE WITNESS: Well, yes, but that did not worry us. That is true, though, because we borrow money and where we borrow money we have all to sign the note.

BY MR. ARNASON:

Q. The board of directors? A. The board of directors.

BY MR. PARKER:

Q. For all these activities it would appear as though the incorporated company, the limited liability company, was a necessity, but when it comes to the question of taxation, that thing seems to fade away like a ghost; it doesn't exist; there is nothing but members left. That is what is bothering some of us, I think -- as to how it can be existent in respect of one position and non-existent in respect of another. Do you see my point? A. Really the point is that the proceeds are distributed to the members. They can be distributed to the last cent. There is no profit if they are.

BY MR. ARNASON:

Q. Do you handle any milk for non-members? A. No.

Q. I think at the beginning of your evidence reference was made to associate members as compared with ordinary members. I am not certain that I understand the difference

between the two.

MR. PARKER: If the Commission will pardon me, I am coming to that, and I shall be glad to take it up at that time. (To the witness):

Q. Before I leave this true cooperative business, would you go so far as to say that an association such as yours that went into the manufacturing of all sorts of processes, cream separators and so forth --

MR. LONG: Just a moment; he didn't say they manufactured all sorts of processes.

MR. PARKER: I am putting the question to him now. (To the witness):

Q. Would you call that still a cooperative association, once they get away from handling the primary products? That is what I would like to know.

MR. LONG: I think that is a very unfair question. It has not been established, as my learned friend suggests, that we have gotten completely away from our foundation products. My learned friend says we are manufacturing all sorts of things.

MR. PARKER: I say, processing, and add to that, manufacturing, if you like, step by step. (To the witness):

Q. Is there any limit to the extent to which they can go -- that is what I am asking -- before they get so far away from the original idea that they cease to be a cooperative? A. Oh, I wouldn't know that.

Q. Now then, we pass on to the bottom of the page where you quote the united nations; that has been quoted to this Commission before, the Conference at Hot Springs. Have you read that report in full? A. Do you mean this paragraph?

Q. No, I mean the report from which this is a quotation.

A. No, I have not read it.

Mr. Carr

Q. Who was responsible for picking this particular quotation out, do you know? Was it you? A. Not me, no; but I have read it, and it fits.

Q. I would ask who is responsible for picking this out, and can he tell us or can you tell us whether there was anything in that report suggesting in the remotest fashion that cooperatives should be free from taxation?

A. I wouldn't know.

Q. You don't know. Then on page 4, where you summarize your suggestions, you say: "The Association has paid its own way from its inception and has never asked for or received government financial support." Hasn't this association indirectly from the fact that it has not paid any income or excess profits taxes -- isn't that a species of government support? What do you say to that?

A. I have no interpretation of that. I would not interpret it that way.

Q. Well, as some witnesses have put it, where one company is exempt from taxation and another one has to pay it, that is equivalent to giving the exempted company a subsidy. Would you agree with that? A. It might have been intended that way, because in my recollection for quite a number of years governments not only of this province but of other provinces have been quite keenly supporting the idea of cooperatives, the establishing of them and the continuation of them, and they might have intended in their wisdom to exempt them from taxation just for that reason -- to make it easier, to make it possible for them to continue, and, shall we say, to relieve them of any chicanery or doubtful dealings so far as putting away all their surpluses is concerned, or shall we say their income, their profits, as cooperatives do not really have profits; you would say, well, we would have to pay them all out; we pay more out than we receive,

Mr. Carr

or something, so as to avoid taxation. Because after all, as I said before, the building up of profits is of no interest to anybody in our association; nobody gets any benefit from it except the members, the individual rank and file of members. We could pay all the money we have out to them and still do business, I suppose; having built up a reputation as good business men I suppose we could do that now on credit.

Q. I should just like to call your attention to your by-laws -- have you a copy there in front of you? -- page 29. I am reading this for the first time and it may not mean exactly what I thought.

MR. LONG: Twenty-nine is an extract from the Cooperative Association Act.

BY MR. PARKER:

Q. That is a quotation, an extract, from the Cooperative Association Act? A. The act at that time, yes. The act has been amended since then.

Q. On page 29 it sets forth how the association may deal with its -- what? A. With its profits. In the provision in the up-to-date act I believe they call it return, proceeds, or distribution of profits in proportion to the business that each member does with the cooperative.

Q. When was that amendment put through, do you remember, about? A. No. It was a few years ago, several years ago.

Q. Since the war? A. No, not since the war; before the war.

Q. Anyway it says here:

"When the association has a reserve fund equal or greater than the subscribed capital, it may, after having paid dividends of not more than eight

per cent of the paid up capital, and after having set aside for the reserve fund at least ten per cent of the profits, distribute the remainder of the profits among the shareholders in proportion to their dealings with the association."

You say that has now been changed to "savings" or some other term?

THE CHAIRMAN: Do you happen to remember, Mr. Long, what section that is of the present revised statutes?

MR. LONG: I couldn't say, my lord. I shall be glad to look it up and let you know.

MR. PARKER: At the moment I am not so much concerned about the change of the name from "profits" to whatever it is; I suppose the name given to it cannot change its real nature.

MR. BROSSARD: It is section 25 of the present act.

BY MR. PARKER:

Q. Now, look at your amendments to the by-laws -- your printed amendments: "Amendments have been made to the by-laws, which now read as follows." When were these amendments put in? Do you know the date of them?

A. No, I have not the dates.

Q. Do you remember approximately? A. No.

MR. LONG: As a matter of fact they have been amended from time to time.

THE WITNESS: We would have to look up the minutes.

BY MR. PARKER:

Q. I am looking particularly at the second amendment there: "Any person or firm producing milk can become an associate member of this association without subscribing for shares, by signing the association agreement." Have you any idea how long that has been in force?

A. Oh, a number of years. I know that it is a number of years, but exactly the length of time, I would have to look up the minutes.

Q. What was it before that? How did people become members before that? What was the change made about that time? A. Oh, that adds another class of members.

Q. What was the purpose to be served in getting another class of members? A. Well, we are perhaps in a peculiar position; that is why I flounder over some of your questions; I am sorry. But the difference between the shareholder member and the associate member is really ten dollars out of the man's pockets, except for the fact that the shareholder member can vote; he can go into the city once a year and vote for the board of directors, and that is the only difference there is between him and the associate member. He is invited to become a shareholder member -- I mean all the members; all the milk producers are invited to become shareholder members.

Q. It is purely optional whether they do or not?

A. It is optional, yes; it is optional with us and it is optional with themselves. If they wish to have the right to come in and vote for the board of directors they pay their ten dollars and vote, and they only pay the ten dollars once. I think you referred to it as a revenue of the association; it is really capital.

Q. Quite right; it is capital. A. It is not a source of revenue, because we have to put that into capital.

BY THE CHAIRMAN:

Q. Does a producer automatically become an associate member on delivering milk to the association? A. No, he does not. He has to sign.

Q. What formality does he have to go through? A. He has to sign the association agreement before his milk can be delivered, and belong to his local branch, the nearest local.

Q. What do you do with the outsider who presents himself to deliver milk to the association? Do you turn him away?

A. Yes, we have to turn them away. We have actually done that.

Q. Do you do it as a rule? A. We do not have very often a situation like that, but when we do we always turn them away, because our permit to run a plant in this city is dependent on the fact that we will only take milk from our members, that is, our men who have bound themselves by the association agreement.

BY MR. PARKER:

Q. One other thing in connection with the management: who is it that votes at a meeting when directors are elected? A. Shareholder members.

Q. The others have no vote in the selection of directors? A. They have a vote but they have none at the selection of directors.

Q. They have one vote when it comes to the election of directors? A. No.

Q. When the amount of reserves is determined to be set aside each year, that is determined by the directors?

A. By the board of directors, yes.

Q. Then it follows, does it not, that the so-called associate members have no voice, either as such or through the directors for whom they have voted, in determining how much of their money will be paid to them and how much will be held in reserve? Now, has the association ever paid

Mr. Carr

any money back to the associate members representing -- what shall I call it? -- the surplus earnings of the association or its plant? A. No, because our surplus earnings from year to year -- I mean our earnings are distributed very closely and the balance is shown as making up those reserves.

Q. Do you make an initial payment when a man brings his milk in? A. No.

Q. It is one payment, once for all? A. Yes, when we know how much he can be paid for the milk, that is his cheque.

Q. That amount is determined by the board of directors elected by the shareholders, and the man who is not a shareholder has nothing to say in the world about how much he will get for his milk -- in that sense.

A. You can interpret it like that.

Q. You have heard of the Rochdale principle as applied to cooperatives? A. Yes.

Q. Did you ever hear that one of the fundamental principles of the true cooperative is one member one vote, so that there is no chance of a group getting control, and that sort of thing? Have you heard that argument? A. Yes. We invite all these men to become shareholder members. We do not force them to be.

BY MR. ARNASON:

Q. Are there many fluid milk shippers in the Montreal area who are outside your association? A. No, I would say ninety per cent are now members, that is at least associate members.

BY MR. ELLIOTT:

Q. You have spoken several times about the possibility of cutting down the amount of surplus retained by the

association. A. That is always possible.

Q. In case you did that, how would you expand? How would you finance expansion when it became desirable to increase your plant? A. We would have to expand on borrowed money.

Q. What sources of borrowed money are available to you? What have you used in the past? A. We have borrowed from the bank in the past.

Q. On the promise of the association alone? A. No, on the notes of the board of directors -- joint note.

Q. That is, the board of directors have taken personal liability; they have guaranteed the amount of the note? A. Yes.

Q. Would that be a satisfactory method, do you think, from the point of view of the board of directors? A. It never seemed satisfactory to me.

BY MR. NADEAU:

Q. Do you pay any interest on your shares? A. We did, I think, for one year only; our business -- well, I am not asked to go into details of the business at the moment, I suppose, but we needed machinery, we needed more expansion, and we have paid for only one year.

Q. You have paid for only one year? A. Yes.

Q. When was that? A. It would be 1940; that is my recollection.

Q. How many local branches have you in this province? A. In the province of Quebec I believe we have twenty-one; in the province of Ontario six -- I am speaking from memory; right in that neighbourhood.

Q. Are those local branches dealing in milk only? A. Yes, they are groups, loosely organized groups of our members, so as to make them available for communication,

for propaganda -- communication. We have various reasons for bringing speakers to speak to milk producers about their business, about the health of their cattle, methods of producing milk, and so on, and so on, and that is why we organize local branches, because they never will all come into a big meeting in the city.

Q. Is each of your members credited in your books with the amount of money which might be returned to him later?

A. No, because there isn't any definite amount that might be -- you mean for interest on his shares?

Q. Not only for interest; out of your surplus.

A. No, because the surplus is created for a purpose. Naturally we do not just have surpluses to have them. We are occupying at the present time a rented building. Our business greatly overflows this building. We are on a crowded street. We have been objected to by the health department in Montreal, and sometimes the road department too, because we have trucks standing too long without being unloaded. We are in a cramped corner. We have just been doing the best we could with what we have at hand at the moment, until conditions get normal again so that we can move from where we are to where we can do business in a proper way.

Q. Then who has a claim to your assets and reserves?

A. Our members.

Q. Associate members and shareholders? A. I would say that our associate members have just as much interest in them as anybody. They can become, without refusal, shareholder members any time they wish. They are bona fide milk shippers, and any bona fide milk shipper to this market may become a shareholder member on application.

Q. But as long as he does not become a shareholder he is not entitled to any claim in the assets or the reserves of your association? A. As long as he is not a shareholder member he is not entitled to claims as such.

Q. Then shall we conclude that shareholders only have control over those reserves -- the disposition of them?

A. I think so, and after that we conclude that the board of directors have control over the reserves -- even that far down.

BY MR. ARNASON:

Q. With further reference to that line of reasoning, in view of the experience of the association during the past number of years, and particularly in view of your experience with associate members as compared with regular members, would you see any objection to adopting a policy whereby the share capital outstanding would be retired and all the members of the association would be put on the same basis, given the same privileges with respect to voting, the interest of all members in the association being measured by their patronage over the past number of years? Do you see any objection to that?

A. I would not see any objection; as a matter of fact if there was a vehicle through which that could be done I would consider it ideal.

Q. Doesn't your legislation permit that? You have power to re-purchase the shares? A. I think the legislation, if I understand it correctly, calls for the necessity of the possession of shares; it calls for the necessity of a certain number of shareholder members -- that is under this particular act.

Q. Well, the point of my question was whether there

was any real reason for continuing this difference between the two classes of membership, in view of the successful experience of your association. A. I wish we could find some vehicle by which we could bring that sort of thing about. The difference between shareholder and associate members has always worried me more or less. I do not like it at all. But after a number of years, and since the inception of the association, all these men are invited to become shareholder members at ten dollars, and they don't come forward and pay the ten dollars to be a shareholder member -- I don't know why they don't; inertia, probably, or probably they need the ten dollars that particular day. If we took a dollar a year or a dollar a month from them we might -- but it is too big a job to canvass all these four thousand people and get them to be shareholder members. We would have to do it quite a number of times before we got them all. That is one reason it has not been done. We used to depend upon that for our working capital, but we found we couldn't, so we have had to build up reserves, business reserves. We have put all that capital in it, and that is all it is, and there it is; as far as these shareholder members are concerned every ten dollars apiece is there for them. But they have no benefits from the association that the associate members do not get, apart from the doubtful privilege of assuming the responsibility of getting out to an annual meeting and electing the board of directors-- I said, doubtful privilege.

BY MR. VAUGHAN:

Q. "It has been well said that the basis of cooperation is the common good." Would you explain what is meant by that? A. Well, I could attempt to explain it, sir, as

practised by our association as a cooperative. The only reason for it existing was to allow the individual producer some chance of having at least a voice in the fixing of the price of his product. After several years of operation we did arrive at that place where the individual member could, through his elected representatives, make a bargain for the price of his product. Until the organization of this cooperative, a bargaining cooperative, there was no pretence -- yes there was up until ten years; until 1900 there was no pretence but after 1900 there was a pretence, which was never better than pretence -- a group of producers arrived in the city once a year, decided what they should have for their milk; they went home hoping and their hopes were never realized. After the operation of this cooperative --I mean to say after becoming a person, shall we say -- a legal entity -- and being able to hire people and pay them salaries and decide what we should do in an organized way we did succeed in coming to the point where we could meet the buyers of our product and make a price with them; and finally we came to the place where we could even enforce that price.

Q. Now you are referring to the producers ? A. Yes.

Q. Would the common good go farther than that and include the consumer? A. Well, sir, I agree with you; I think you will find in the objects of this association, one of them at the inception of it was that we should do all we could to teach the producer to produce the highest quality of product possible, and we have followed that consistently. One of the earliest duties that we had to perform was to sit in with a joint committee on the preparation of the milk by-law for the city of Montreal. Our present milk by-law was the product of several years'

work, in which our association rendered useful service.

Q. What I had in mind was the consumer. Does it not appear that your price fixing has caused the price of milk to go up to the consumer? If it has improved the price to the producer it must have caused an increase to the consumer to that extent. A. That is bound to be so to some extent, but not universally. As a matter of fact the consumer to-day is getting cheaper milk on this market than they did quite a number of years before. On account of the government bonus to the consumer, which is placed there I believe partly because of the organized marketing of the producers with the cooperation of the government which actually established boards and enforced the agreed prices.

Q. The brief says that in selling milk to wholesalers you have to make the price less in order to compete with milk coming from outside the province; isn't that right? A. I am sorry, sir; I didn't hear.

Q. The brief says that in selling milk to wholesalers you have to make the price less than \$2.50 $\frac{1}{2}$ in order to meet the competition of the milk coming from outside the province. A. The Dairy Commission permitted the selling of milk in its whole form, in its natural form, by us to those people because of the fact that they were prepared to either use something else or go outside of the city. This milk that we are selling as such is really factory milk; it is milk that is not required for whole milk on this market. Naturally you cannot guarantee the last quart of whole milk necessary without having at the same time alongside of it a surplus -- I mean, a margin of safety. Now, all that goes to our plant is that margin of safety, and that under other conditions would properly be kept outside the

city altogether and manufactured probably into the same commodities that we manufacture it into, wherever it is found, out in the country.

Q. Well, taking those two points together, doesn't it increase the price you pay to the producer at the expense of the consumer? A. It is a vexed question. In fact the real crux of it, the core of that question, is that milk will only be produced in sufficient quantity and of sufficiently high quality for use as whole milk in a city like this if there is a reasonable price paid for it. When the price is unreasonable, either the quantity or the quality is sure to suffer. The public does not expect to get high class goods without paying a real price -- I mean to say the right price -- the bargaining I have referred to arrived at the right price. As a matter of justice we do not pretend to protect the consumer at the expense of the man that produces his quota of that first class milk at the right price.

Q. I notice in your by-laws there is a clause which refers to a fair price committee to be composed of certain representatives one of which is the consumer. Is that in effect now? A. That was a hope. I do not think that is a by-law, -- that is one of the objects, isn't it? That was really a hope. It was never realized.

Q. It says: "The general policy of this Association regarding matters herein referred to shall be as follows:

"(a) The formation of a fair price Committee composed of representatives from the following bodies:

The Producers,
The Consumers,
The City Food Authorities,
The Dealers."

That was never put into effect? A. Well, until the establishment of the Dairy Commission. Of course the

Dairy Commission has always represented the general public, who would be the consumers.

Q. The consumer has no say at all now about price?

A. Through the Dairy Commission; through his government who appointed the Dairy Commission he would have full say as to what the price should be.

BY MR. ELLIOTT:

Q. Is the price set by the Dairy Commission a maximum or a minimum price? A. The price set by the Dairy Commission is a minimum price, yes. Because of differences in quality there may be super quality milk which it is hard to regulate the price on; but what we call standard market milk, the price of that is set by the Dairy Commission.

Q. Would you say that that minimum price is set to benefit the consumer? A. Yes, and I think rightly so, because the consumer buying that is assured of a sufficient quantity of sufficiently high-quality milk.

Q. You think that a maximum price would be quite unnecessary? -- I am not speaking now of war-time conditions.

A. In our pre-war experience there has never been any demand for a maximum price from the commission.

BY MR. VAUGHAN:

Q. Is it really a minimum price? A. It really is; it is called minimum by the Dairy Commission themselves.

Q. It is the only price? A. It is the only price.

BY MR. PARKER:

Q. About these reserves again. In your statement the expenditure on your plant and equipment has been written off, but you still see fit to set aside to general reserve \$18,800. Why was that necessary? What is it for? Why wasn't that distributed? The company seems to be in pretty good shape without that. This is at the bottom of

the figures on the printed statement: "Depreciation on machinery, equipment, et cetera, \$847; write-off balance of cost of boiler conversion" -- wasn't that all written off before? A. No.

Q. That finishes it, anyway -- "write-off balance?"

A. Yes.

Q. General reserve, \$18,800; what is that for?

A. I think I have indicated without troubling you with the details of our plans the position that we are in. I do not know whether you have been to our plant; I would invite you to go there, and you will realize at once that we are in a very cramped corner; we are in an unsatisfactory location from many points of view. We have been there ten years, and our lease is up in three years from now. We were hoping the war might then be over -- and you cannot rent a satisfactory building; we have found that out; we have tried. You have to rebuild a building for a dairy building anyway, if you do rent, and candidly we have in mind the necessity of expanding the plant, buying land and building a building and putting in machinery. The average life of dairy machinery unfortunately is about ten years. The depreciation is quite rapid on that class of machinery, and we have not sufficient capacity at the present time to cover the demands of our members. We have at the peak periods during the last three years received more milk to manufacture during certain limited periods of the year than we could handle in that plant. The answer is that it is only business and forethought to provide for the establishment of a new plant; and in three years more we will need new machinery; the machinery we will have will be worn out.

Q. To sum it up, then, you are setting aside this reserve with the idea of using it to make expansions and improvements to your plant so that you can carry on a bigger and better business; is that a fair way to put it?

A. Out of necessity -- I would like to stress that point; it is necessary that we do something.

Q. Is it any more necessary for you than for a private company at the present time, under war restrictions, having regard to their position with respect to the payment of income tax? A. We have four thousand people demanding that they be given certain service, and we are trying to do it.

Q. Out of four thousand only fourteen hundred of them have put up capital; if the other three thousand put up ten dollars you would have a certain amount of money for expansion.

BY MR. LONG:

Q. There has been a lot said about your surplus milk and your processing plant. What percentage of the total milk sent in to Montreal by your members goes to the surplus milk plant? A. I had occasion over a period of three years to make a curve, a surplus curve for this market, and I found that an average of less than five per cent comes in as surplus -- that is over the whole picture, an average of less than five per cent in those three years.

Q. Just one other point. This average of five per cent that goes there -- what is done with it? A. There is a fairly large quantity of it turned into cream; that is, it is skimmed and the cream is sold as sweet cream on this market -- sold to the dealers who retail it.

Q. To the same people who buy the other ninety-five per cent? A. Exactly.

Q. And do you make the multiplicity of products suggested by counsel? A. We are limited to supplying a couple of manufacturers with a comparatively small amount of milk in its natural form. We skim and we sell sweet cream to this market, and what we haven't a demand for sweet cream for we make into butter. Naturally we have skim milk and we make milk powder to our capacity where we are going at full blast-- I mean to say, where the surplus is at its peak, this surplus is like Mount Vesuvius before it blew up; there is a very sharp peak at the end of June, the third week in June, and at that time our powder plant is not of sufficient capacity, the one we have right now, to handle that skim milk. We are still putting in vats for wet casein -- these are products that apparently are needed at the present time. We have stretched our capacity to the absolute limit trying to take care of that skim milk.

Q. You mentioned in reply to a question put to you that the dealers are supposed to give you forty-eight hours' notice. Is that by a ruling of the Dairy Commission -- I refer to schedule (b) of your submission? A. Yes.

Q. Is that forty-eight hours' notice scrupulously abided by? A. No; regrettably I say that. I do not wish to make a point here --

Q. No; I am not criticizing -- I am leading to something else. When this forty-eight hours' notice is not scrupulously observed by the dealer, and one of your members comes to town, we will say, with a hundred gallons of milk and the dealer takes only fifty, in the absence of the surplus milk plant of the association what would become of that extra fifty gallons? A. It would have to be returned home. It would have to be returned back home.

Q. Or poured down the drain? A. Yes, -- well, it would be wasted in many cases. It would be hog feed when it got back home.

BY MR. NADEAU:

Q. Our auditor would like to have financial statements from 1935, if possible. Could these be furnished to the Commission? A. I think so.

MR. LONG: I am sure we have them on record.

MR. PARKER: Just have them sent to the Registrar of the Commission, will you?

THE CHAIRMAN: You will file them with the Commission.

MR. LONG: I will file the back statements, my lord. I want to say one word in conclusion. I think your lordship asked a question about the redemption of this stock. With regard to the disposal or transfer of our stock we are entirely controlled by the Act, and so far as I can see, subject to correction, we have no right to redeem it-- no right whatsoever to redemption.

MR. PARKER: Just like an ordinary company in that respect.

THE CHAIRMAN: What case do you propose to take now, Mr. Parker?

MR. PARKER: We will take the Independent Dairies now while we are at it.

MR. VERSCHULDEN: Mr. Chairman, I am acting for the Farm Mutual Insurance Companies. I know that there is a date fixed in Ottawa for the hearing of such companies, and I want to declare on behalf of my clients that they do not object to the postponement of their case to that date, which is the 16th of April.

THE CHAIRMAN: That is, you will join the other mutual insurance companies in Ottawa.

MR. VERSCHELDEN: Yes.

Quebec Milk Distributors Association Inc.

HARRISON G. HAYES

Chartered Accountant, being duly sworn, testified as follows:

BY MR. PARKER:

Q. What is your profession, Mr. Hayes? A. I am a chartered accountant.

Q. Did you prepare this brief? A. I assisted in the preparation of it.

Q. Who did the other part? A. The secretary, whose name you see at the bottom. It is the wish of the Association that I be examined on the matters specifically referred to in here and that I attempt to deal with those questions arising out of this so far as I may be able; but as regards the operations of the Association that Mr. Poupart should be brought to the stand, if you will consent to that procedure.

Q. "The Province of Quebec Milk Distributors Association Inc."-- that is an incorporated Association, isn't it? A. I would prefer that the Secretary deal with that. You might like him to come on first.

Q. If you do not know; if you know, tell me. A. I would prefer to have him deal with everything dealing with the organization.

Q. Don't you know anything about it? A. Not a great deal about the organization.

Q. Can you tell me whether it is an incorporated body or not, this Association on behalf of which you appear?

A. Yes.

Q. Now will you tell me, was this brief after it was prepared -- by you and the secretary, did you say? A. Yes.

Q. Was it submitted to the Association members for approval to see if it complied with their wishes? A. Not that I know of. It was submitted to some of the members of the Association.

Q. Do you know how many? A. No; I cannot tell you that.

Q. Do you know approximately how many members there are in the Association? Are they all listed here? A. Those are the independent ones. There are two or three I am told who operate under the name of cooperatives who are not listed here.

Q. You make a careful distinction between those that "operate under the name of cooperatives" as distinct from cooperatives? Are they cooperatives? A. I don't know.

Q. How is it they are not joining with the rest of the members of the Association? A. That is a question the secretary will have to answer.

Q. Don't you know? A. No.

Q. Except that you know there are three or four who did not? A. I am told.

Q. Apart from that, all the rest of the members have signed -- their names are appended to this brief? A. Signed? No, sir.

Q. Their names are appended? A. That is right.

Q. Who appended them? A. The Secretary.

Q. Do you know how this was submitted to the different members for approval? A. No.

Q. You do not know the details at all? A. No.

Q. Perhaps you will read it, then.

THE WITNESS: The brief is as follows:

"This submission is being made by the Province of Quebec Milk Distributors Association Inc. on behalf of the independent dairy companies, shown on the attached list, carrying on operations throughout the province.

"Cooperatives have been operating in the province of Quebec for a number of years. More recently they have entered the dairy field and are now competing with the independent milk distributing companies. Although the members of this Association do not feel that they can add a great deal to the evidence and information already submitted to the Commission, having in mind the rapid growth of co-operatives in the west and their present dominant position in milk distribution services in certain of the western areas, the independent dairy operators of this province felt that the views of the companies handling a large proportion of the fluid milk distribution in the province would be of interest.

"We have read with interest briefs submitted on behalf of independent dairy companies in British Columbia, Alberta and Saskatchewan. These submissions offer striking evidence of the rapid growth and expansion of cooperative dairies in Western Canada. We believe that cooperatives have been able to expand their operations largely due to tax exemptions, particularly in recent years, which enabled them to keep all their profits or surpluses, whereas tax-paying organizations were required to pay a minimum of forty per cent of their profits to the Federal Treasury. Furthermore, other companies are subject to regulations and restrictions of the Tax Department in respect of plant write-offs and depreciation in determining their profits

and their tax liability, whereas no such control is exercised over cooperatives exempted under the Income War Tax Act. Thus the increase in surpluses or unappropriated reserves shown in statements of exempted cooperative does not give the complete story of the subsidy accorded them through tax exemption.

"This Association does not believe that any useful purpose would be served by repeating all the legal and economic arguments set forth so well in the submissions on behalf of independent dairies in western Canada above referred to. It believes that many cooperatives which it was never intended should have the benefit of any tax exemption are claiming and obtaining such exemption at the present time. It has been stated that the test of a true cooperative qualified for exemption under the act is as follows:

"1. It must be a cooperative of primary producers. Producers of manufactured goods or articles are excluded. For example, a cooperative organized to buy poultry or eggs from producers and then killing and dressing poultry or grading the eggs for marketing would not qualify.

"2. The proceeds from the sale of the products of its members must be paid back to such members on a basis of quantity and quality (less expenses and reserves). In other words, it must only act as the agent for the member, and must distribute earnings on a patronage basis.

"3. Where supplies are purchased for the use of members they must be turned over to the members at cost (plus expenses and reserves). There must be no profit arise from such transactions.

"4. The gross business done with non-members must not be in excess of twenty per cent of the total business of the cooperative..

If the association fails to meet any one of these requirements, the Income Tax Department will rule that it fails to qualify for the exemption.'

"It is submitted that a strict application of the foregoing definition would eliminate many organizations from the tax exempt field which they now occupy. Notwithstanding this, it is the view of this Association that the application of this definition and the removal from the tax exempt bracket of those cooperatives would not entirely correct the inequality which now exists unless all profits or surpluses are distributed each year to members. Where any part of a surplus or profit is retained, then it is submitted that such profits or surpluses represent taxable income. A true cooperative, which returned all excess earnings to members would not attract income tax.

"Under existing circumstances, taxpayers are subject to strict regulations in determining taxable income. Not only is the profit or surplus of certain cooperatives exempt under the Act, but there are no restrictions or regulations governing charges on the income of such cooperatives before the determination of their surplus.

"In 1919 a Royal Commission on Income Tax was appointed to consider the British income tax. The Commissioners, in a majority report, made the following recommendations -

"We recommend, in effect, that a society should be treated exactly as a limited liability company trading in similar circumstances and under similar conditions and if our proposals are acted upon, it will be necessary to amend the existing law in so far as it confers special exemption on cooperative societies."

No change was made in the British law in connection with the taxation of cooperatives following the report of the 1919 Commission. In 1932 a Committee of the House of Commons was appointed to inquire into the position of the cooperatives with respect to the income tax. One section of the report of this Committee reads as follows:

"We are unable to see any reasonable ground for holding that the undistributed surplus derived from the trading of a society with its members should be exempt from income tax by reference to the nature of the source from which it arises. We agree with the view of the Royal Commission of the Income Tax in paragraph 556 of their report that a true trading profit does result from the trading of the societies both with members and non-members."

We submit that the conclusions reached by the Royal Commission appointed in England in 1919 and the Committee of the House of Commons in 1932 have stood the test of time and are the opinions which are now held by the business community at large.

"The rapid growth and expansion of cooperatives which has occurred in the west, particularly in the dairy field, has resulted in the disappearance of independent taxpaying dairies formerly handling this business. Unless some equalization of the competitive position takes place which would arrest the accumulation of tax free surpluses, this process may well be repeated in the province of Quebec. As an example of how rapidly tax free surplus can accumulate an examination of the financial statements from 1939 to 1944 inclusive of a cooperative dairy association operating in the Montreal area reveals the following:

"In the years between 1940 and 1944 when corporate taxpayers were paying taxes at minimum rates of forty per cent and, in many cases much higher rates, this cooperative credited to surplus and general and contingency reserves amounts aggregating \$76,670. Equivalent earnings of other organizations would have borne a minimum tax of forty per cent or \$30,660. Furthermore, the exemption from taxation which this cooperative enjoys enables it to set aside such provision for depreciation or the write off of

capital assets as it wishes to do without regard for the regulations and restrictions which operate in determining taxable income of taxpayers.

"This cooperative had an issued capital stock in 1939 of \$15,315. By 1944 it had increased by only some \$605. During the same period the excess of current assets over current liabilities had increased from some \$15,600, at the beginning of the period to \$112,800 by the end of 1944.

"The buildings, plant and equipment of this cooperative organization have been completely written off and an examination of their statements would indicate that expenditures on capital assets are being written off as they are purchased.

"During the five years referred to, namely, 1939 to 1944, there have been no charges against the surplus (except a distribution to shareholders of \$888.60) or contingency reserve account and it would not appear as if there had been any substantial charges against the general reserve. Thus the organization has been increasing these reserves and surplus accounts each year and has not been returning to members surplus earnings.

"It is submitted that as the excess earnings are not returned to members on the basis of their deliveries of milk, they represent taxable income in the hands of the cooperative and that, in determining the amount of the cooperative's taxable income, the same income tax rules and regulations should be applied in computing those earnings as are now applicable to taxpaying companies.

"The growth of cooperatives in western Canada coupled with the rapid accumulation of funds which can be achieved by tax exempt cooperatives as compared to other competing taxpayer organizations under existing tax laws offers

Mr. Hayes

convincing proof to our members that, unless independent dairy operators are placed on the same tax basis as co-operatives, the independent operators will be driven from the business. Taxpaying enterprise cannot compete with tax exempt enterprise.

"This association does not oppose the principle of cooperation or cooperative trading but submits that individuals who join together to obtain a benefit through cooperative or mutual action do so for their own good and should be subjected to the same regulations and tax liability as any other group of persons engaged in a similar business.

"In conclusion, our association submits -

"(1) that a trading profit does result from the transactions of cooperatives;

(2) that the profit or surplus of co-operatives should be taxed under the provisions of the Income War Tax Act and The Excess Profits Tax Act on the same basis as are the profits of other persons operating in the same line of business.'

Respectfully submitted,

Province of Quebec Milk Distributors Association
Inc.,

Secretary,

"List of the Independent Dairy Companies
on Whose Behalf the Attached Submission
is being made by the Province of Quebec
Milk Distributors Association Inc."

"Laiterie Chicoutimi	Chicoutimi
Laiterie de Dolbeau	Dolbeau
Cremerie de Drummondville	Drummondville
Laiterie de Granby	Granby
Laiterie de Levis	Levis
Laiterie St. Alexandre Limitee	Montreal

Elmhurst Dairy Limited	Montreal
J. J. Joubert Limitee	"
Laiterie des Producteurs Inc.	"
Borden Company Limited	"
Ernest Cousins Limited	"
Mount Royal Dairies Limited	"
Laiterie Ideale Limitee	"
Laurel Dairy Products Limited	"
Guaranteed Pure Milk Company Ltd.	"
L. Hope Dairy Limited	"
Pointe Claire Farm Limited	"
Laiterie Perfection Limitee	"
Laiterie W. Noel	"
Laiterie Rosemont	"
A. Poupert & Compagnie Limitee	"
Laiterie A. St. Aubin	"
Laiterie A.O. Jasmin Enrg.	"
Laiterie Laval Enrg.	Quebec
Laiterie de Quebec	"
Laiterie Frontenac Limitee	"
Laiterie Brookside Inc.	"
Laiterie Murphy	"
Noranda Dairy	Noranda
Laiterie Lapointe Enrg.	Rouyn
Laiterie Shawinigan	Shawinigan
Sherbrooke Pure Milk Company Ltd.	Sherbrooke
Laiterie I. Comtois	St. Eustache
Laiterie Maskoutaine Enrg.	St. Hyacinthe
Laiterie Granger Freres	St. Jean
Cremerie de St. Jerome	St. Jerome
Cremerie des Trois-Rivieres & Regal Limitee	Trois Rivieres
Laiterie Jeromienne	St. Jerome."

BY MR. PARKER:

Q. I take it that the Association to which you refer on page 5 is the Association whose affairs were examined into just a while ago in this court room? A. That is correct.

Q. And you had before you in making the analysis that you have made here their financial statements? A. I did.

Q. Over how long a period? A. The period referred to here.

Q. 1939 to 1944? A. Yes.

Q. And this sets forth the situation as you analysed it. Now, there are just one or two statements I would like to verify, Mr. Hayes, if you please. On page 1: "Although the members of this Association do not feel that they can add a great deal to the evidence and information already submitted to the Commission, having in mind the rapid growth of cooperatives in the west and their present dominant position ..." -- where did you get the information that their position is so dominant in the west as you have stated here?

A. Largely from the briefs submitted to this Commission.

Q. How many of your members read those briefs?

A. I cannot tell you.

Q. Have you any knowledge that any of them did?

A. Some of them did.

Q. And you read them? A. Yes.

Q. And the secretary, who assisted you? A. Yes.

Q. Are you suggesting, as you do at the bottom of the page, that the "cooperatives have been able to expand their operations largely due to tax exemptions, particularly in recent years"? A. That is the opinion of the members.

Q. Could you express an opinion as to what that is based on? A. I think it is based on the fact that while

corporations engaged in a similar line of business were having to pay out a minimum of forty per cent in taxes, and then presumably pay something to shareholders or accumulate ordinary and necessary reserves, these amounts were not paid by cooperatives but were available for expansion of plant, equipment and other business assets to embark on larger operations.

Q. But isn't it true that the independent dairies have expanded during the last three or four years both in business and plant equipment, notwithstanding the taxation?

A. I think there has been expansion in all lines of business.

Q. I am talking about the independent companies.

A. I think that is true.

Q. That wasn't due to tax exemption, was it? A. Certainly not.

Q. Yet they have expanded. A. They have not expanded as rapidly as the cooperatives; that is the contention.

Q. It has been suggested to this Commission, and I think it is a fair thing to put to you, since you have made a study of this, that the depreciation reserves that have been taken by the independent -- I won't say dairies but independent companies in various lines, have been pretty generous, in view of the war conditions, and bearing in mind this whole question of taxation; and that if a real scrutiny of their accounts were made and a proper valuation put on their plant and equipment we would find they were not so badly off as they would have us believe. A. Going back to your previous question as to expansion of the private dairies, I haven't any first-hand knowledge, but based on everything one can find about the west there has not been an expansion of the private dairy industry in western Canada.

Q. We had passed that question, and I was putting another one to you. A. I would just like to make that comment.

Q. All right; now go on with the other question.

A. I am sorry; would you mind repeating it?

Q. I would rather the reporter would read it for you, and I will put it in exactly the same words.

(The question beginning with the words "It has been suggested to this Commission" was read by the reporter).

Q. It is not very well phrased, but that is the question.

A. I do not think there is a suggestion, certainly on the part of members of this Association, that they would have you believe that they are badly off in the east or in the province of Quebec. But they have watched with a good deal of apprehension what has taken place in western Canada and feel that it will follow here.

Q. Then at the middle of page 2: "It" -- referring to your Association -- "believes that many cooperatives which it was never intended should have the benefit of any tax exemption are claiming and obtaining such exemption at the present time." What do you mean by that? What type of institution is referred to there? A. Well, that has reference to cooperatives which are indulging in manufacturing operations and other operations of that character. This is perhaps a general statement which doesn't add very much to it, but it is the view of this Association that strict interpretation and application of the existing income tax regulations in accordance with what we believe was their original intent would have prevented at least in part the situation which now exists.

Q. I take it you are referring to section 4(p)?

A. Yes; that is right.

Q. Which exempts only certain specific cooperatives?

A. Yes.

Q. And that your Association believes that certain cooperatives have been claiming and, as you say, obtaining exemption that do not properly come within the true construction of the section; is that right? A. Yes.

Q. Could you give us what your Association says is the limit to those types, or have they any opinion on that -- what comes within the limits of 4(p)? A. Well, it is a very difficult question to answer, as I imagine you have had everyone tell you from the start. I have my own ideas, and I do not know that they are the Association's ideas. I do not think I would care to express them as such here.

Q. Isn't the Association expressing its opinion through you here? Isn't it in this brief? A. So far as the statements in the brief are concerned, yes.

Q. They are your statements and not the Association's? A. I didn't say that.

Q. Let me read it to you again: "It" -- which I take it refers to the Association -- "it believes that many cooperatives which it was never intended should have the benefit of any tax exemption are claiming and obtaining such exemption at the present time." If it believes that, it seems to me it must have given its attention to the meaning of this section. A. Generally speaking I would suggest that in a broad way the Association has reference to or believes that organizations or Associations of primary producers which act on more or less of an agency basis or which at least return all of the full sale price of the product to the members would qualify -- and which do not proceed or manufacture.

Q. Now are you expressing the considered opinion of all these companies whose names are appended here, or are you really giving the Commission the benefit of your own opinion?

A. Probably my own opinion.

Q. We don't want any probabilities; we want to know which it is. A. It is not the opinion of all those submitted here, because I haven't had an opportunity of discussing it with them.

Q. Then you are putting it forward as your own opinion-- and I am not saying it is not a very valuable opinion; do not misunderstand me. A. All right, sir.

Q. Then in the next line. "It has been stated that the test of a true cooperative qualified for exemption under the act is as follows." It has been stated by whom? Who stated it in these words? A. I believe that was stated by Mr. Stikeman of the Income Tax department.

Q. When you make quotations we would like to know whom you are quoting, so that we can judge of their calibre .

A. I believe it was Mr. Stikeman. I will have to verify that.

Q. You are not sure at the moment? That goes for the whole of that quotation? A. Yes.

Q. Now, right in the middle of the next paragraph, having referred to that authority. "Notwithstanding this, it is the view of this Association that the application of this definition and the removal from the tax exempt bracket of those cooperatives would not entirely correct the inequality which now exists unless all profits or surpluses are distributed each year to members." Now what I want to bring to your attention there is this, and it is tied in with your recommendations. What part of the so-called cooperatives' funds are you suggesting should be taxed, or

is this Association suggesting ought to be taxed? You say all its profits or surpluses should be taxed unless they are all distributed each year. What funds are you talking about there? Obviously it is not gross income.

A. No; not at all.

Q. So it is that less something, and I want to find out what it is you are suggesting ought to be taxed. You tell us. A. Well, I think in the case of these cooperatives we are speaking of --

Q. Let us take the ordinary producer cooperative first, so that we will know what we are talking about.

A. That is what our members are particularly concerned with, -- that it would arrive at taxable income by deducting from the sale price the necessary expense of doing business, ordinary reserves allowed to any similar organization at similar rates -- I am speaking of the reserves allowed under the Income Tax Act now, such as depreciation reserves and reserves for accounts receivable -- and patronage dividends paid on the basis of quantity and quality of product; and the balance remaining would be subject to tax -- that is putting it into three or four main categories.

Q. Then perhaps I can state it in my own words to see if I understood it: ordinary costs or expenses; certainly that is exempt? A. Yes.

Q. Two, patronage dividends paid back would be exempt? A. In the case of this particular type, yes.

Q. And ordinary reserves arrived at on the same basis as in the case of ordinary companies, on the same principle? A. Yes.

Q. Any reserves in excess of these reserves should be taxable? A. That is correct.

Q. There is an intermediate section which has been placed before this Commission, that is a certain portion of the gross which is not being paid back to the members during the year in which it was earned, but which was entered sometimes in a pass book, sometimes represented by participating certificate or by merely a credit in the books of the company showing he was entitled to that; what category would you put that in -- taxable or exempt?

A. Well, it is my belief that the views of the members with whom I have talked on this, and again on this I am expressing the views of the members with whom I have talked, would be that those should be subject to tax. It should only be on items which are actually paid out.

Q. Within the accounting period in which they were earned?

A. Within the accounting period or a very short time thereafter, in order to provide for a reasonable working arrangement.

Q. That seems to be the position which your Association takes? A. That is correct, yes.

Q. Now, page 4, referring to what took place in England, you express this opinion: "We submit that the conclusions reached by the Royal Commission appointed in England in 1919 and the Committee of the House of Commons in 1932 have stood the test of time and are the opinions which are now held by the business community at large. What do you mean by "the business community at large"? How much territory are you taking in there? A. Well, I am taking in the territory at least covered by the representations of private business to this Commission, and others that have not yet presented their cases, I would say, whether they will do so or not.

Q. Have you any information as to how this has worked out in England on which you base an opinion as to whether

it was a wise or unwise thing to do, and what the effect has been on the success of cooperatives since the change was made?

A. No first-hand knowledge, no.

Q. You have not seen any work or study or analysis that would show how that was affecting the cooperatives?

A. No.

Q. I suggest the next two or three lines are perhaps a little strong, a little too much of a prophecy, and perhaps you would like to modify them; I do not know: "Unless some equalization of the competitive position takes place which would arrest the accumulation of tax free surpluses, this process may well be repeated in the province of Quebec."

Do you think that is a little strong? Just before that you speak of the fact that in the west it has resulted in "the disappearance of independent tax-paying dairies formerly handling this business." I suggest that the whole paragraph is, first, a little strong, and second, a matter of mere prophecy and doesn't help any.

A. Perhaps it should have been "disappearance of many independent tax-paying dairies," which I think is the case.

Q. And have you any knowledge of any that have disappeared by reason of certain cooperatives being exempt from income tax? A. Disappeared from the tax field in the west?

Q. Yes, by reason of certain cooperatives being exempt; that is the statement you are making. I know some have disappeared; we all know that. I want to know have you any knowledge of any that disappeared "by reason."

A. No, I haven't.

Q. Then it would have been better to put it not quite so strongly, don't you think? A. It is a matter of opinion.

Q. Is it your opinion it is still none too strong, now that I have called your attention to it? A. I would perhaps qualify it by saying many.

Q. If ylu want to put it that way, it is your brief, not mine. Then on page 6, the end of the second paragraph:

"unless independent dairy operators are placed on the same tax basis as cooperatives, the independent operators will be driven from the business." That is your opinion, is it?

A. That is the opinion of several members of this Association.

Q. How many of them? A few of them or all?

A. I don't know how many it represents the opinion of. I haven't talked to them all.

Q. That is the difficulty; when we get opinions like that we like to know how many hold it, whether it is some or all, or whether the majority do not have any such view at all. A. Perhaps the secretary will be able to enlighten you on that.

Q. Perhaps he can. Then finally the brief says: "In conclusion our Association submits that a trading profit does result from the transactions of cooperatives." You are referring of course to the ordinary producer co-operatives? A. We are.

Q. Doing business on which basis -- on a consignment basis, or on the basis of the cooperative which buys and sells? Which? A. Which buys and sells. But we qualify that; where on a consignment basis, or agency basis if you wish to use that term, reserves or excess profits or surplus, call them what you will, are retained in order to assist in future operations.

Q. I notice that a lot of the names appended are those of independent dealers, aren't they; they are not companies at all? A. Yes.

Q. Personally-owned businesses? A. Yes.

Q. Why do the personally-owned businesses join this as well as the limited companies? I thought this was more or less of an argument between the ordinary joint stock companies and the so-called cooperatives. A. I would like you again to refer that to the secretary. It was the wish of the Association, as I said at the start, that all matters relating to the set-up of the organization and the way in which they operate be dealt with by the secretary, who is here.

Q. Well, I don't want to have too much, if I can get along with one. A. He is right here if you want him.

Q. You have no information as to why the privately-owned business would be interested in this question? A. No, except I might say this, that I think the privately owned operator perhaps feels that he is not able to keep as much in the way of reserves as his cooperative competitor. I do not know whether that is the reason or not.

Q. I do not want to stop you, but you make the statement, I think perhaps such and such is so. A. I beg your pardon?

Q. You make the answer, "I think perhaps such and such might be so." That is not very helpful. A. All right.

BY MR. ARNASON:

Q. I understood you to say, Mr. Hayes, that in your opinion patronage dividends that were paid out to producers, producer members, during or within or shortly after the accounting period during which they were earned, would not constitute income in the hands of the cooperative, but income in the hands of the producer member and would therefore be taxable only in the hands of the producer. My understanding of your statement is right to that extent?

A. Yes, qualified by the type of cooperative of which we were talking at the time.

Q. Yes. Now, just following that -- A. Which is in the dairy field particularly.

Q. Just following that, suppose a portion of these dividends is credited to the members but the distribution of them is delayed say for one or two years -- it is subject to delayed action to use a military term perhaps -- does that change the nature of the dividend as far as taxation is concerned?

THE CHAIRMAN: That is the revolving door plan we heard so much about in the west.

THE WITNESS: It may not change the nature, but it is suggested that the members should be entitled to get that money within a reasonable period of time. If they want to lend it back to the corporation to remain as capital, they are at liberty to do so.

BY MR. ARNASON:

Q. I was just coming to that. They could lend it back; either the funds could be paid out to them with the request that the members lend it back to the organization, or they could provide in their by-laws that a portion of the dividends may be retained over a certain period. But isn't the effect pretty much the same?

A. The effect may be, but I doubt that the result is.

Q. In what way? A. I am doubtful that if you pay out these dividends you will find any large percentage of them prepared to lend it back, or interest free. That is a matter of opinion, since you asked the question.

Q. The reason for asking you this question -- and I realize it is just an opinion you are expressing; you are

not in a position perhaps to speak for the companies? A. I am not,

Q. The reason for asking this question is that evidence has been submitted to this Commission to show that a co-operative is doing that very thing, and when they request the members to lend back a portion of their dividends paid out the members invariably comply with such request. Now, I was wondering whether in your judgment the nature of the fund was changed just by using that device rather than to provide for the delayed distribution of the patronage dividends by by-laws or by marketing contract. I think it changes the effect.

Q. Would you care to elaborate on that a little?

A. I don't think I can add much to what I have said before. But I do feel that if it is provided in the by-laws or some regulations which a member may sign to start with and which others have subscribed to before he perhaps doesn't give very great consideration to it. But if he gets a dividend in his hands and has control of it, or cash, he may or may not wish at the time to turn that back to the cooperative.

Q. It is the effect of the method that is used that you are concerned with? A. Yes.

BY MR. ELLIOTT:

Q. In that same connection, Mr. Hayes, referring to the revolving door plan, often there are two sorts of payments made to members in the same year with respect to patronage, one payment with respect to the amount of patronage during the current year, and a second payment with respect to the amount of patronage say five or six years ago, or three or four, in some previous period. Would you consider

that the sum of these two payments to members in the current year ought to be considered as an expense of doing business in the current year, or in some year?

A. I do not want to get caught in this revolving door that seems to be whirling around pretty rapidly. I am not as familiar with it as you are.

Q. If I have not made myself clear -- ?' A. Yes, you have. I may not be very consistent, but I still think it should only be the amount applicable to the operations of the year under review which should be allowed.

Q. And amounts paid out proportionately to the patronage in the current year? A. Profits arising out of transactions in that year.

Q. Of course it is hard to isolate income to transactions. A. Isn't that the theory?

BY THE CHAIRMAN:

Q. What do you say as to the purpose of this revolving door policy? Can you express an opinion on that?

A. I do not know what the purpose is, but it would certainly have the effect of retaining in the cooperative capital for a period of time, depending on how long it took the door to revolve, with which the cooperative could do business in the form of capital, in effect, or reserve, call it what you will.

BY MR. ELLIOTT:

Q. On page 5 of your brief you state the amount credited to surplus and general contingency reserves of a particular cooperative, and you go on to say: "Equivalent earnings of other organizations would have borne a minimum tax of forty per cent." By "other organizations" I presume you mean incorporated companies? A. Yes.

Q. And not possibly some of the members of the

Association? A. That is right.

BY MR. VAUGHAN:

Q. When Mr. Parker was questioning you, you stated that ordinary reserves should be arrived at on the same basis as applied to an ordinary company and that any additional reserves should be taxable, and that patronage dividends should be allowed to go without taxation. In the final paragraph of your brief you say that the profit or surplus of cooperatives should be taxed under the provisions of the Income War Tax Act and the Excess Profits Tax Act on the same basis as are the profits of other persons operating in the same line of business. I was just wondering if there was not some inconsistency between the two statements.

A. The suggestion is, first, that the cooperatives which should be allowed patronage dividends in the first place are a very narrow group. Secondly it is submitted - I am sorry it wasn't brought out; it should have been stated more clearly -- that where private companies are operating in competition with these cooperatives they should also be allowed to pay patronage dividends and deduct them as an expense of business.

Q. I was trying to reconcile these two statements; I do not think they are quite the same. In one case you say patronage dividends should be allowed to be paid without taxation, and in your final clause you say that profits and surplus should be taxed the same as in the case of any other company. A. In the cases of the so-called true cooperative, and that means something different from what everyone talked about it; but to the agency type of cooperative I do not know that you can determine the price which the vendor is entitled to until it is disposed of; where you have an agency business he is entitled to return on that.

Q. How would you apply this number 2? A. In those cases the recommendation is that you permit a return on the basis of quantity and quality, but also that such privilege be extended to private companies competing with those or --

Q. That is not stated here, of course. A. That is the intent in the second paragraph there.

BY MR. PARKER:

Q. That is that it is only on the condition that ordinary companies be allowed to pay patronage dividends that you would be prepared to recommend that cooperative be permitted to do so? A. Yes.

Q. They must be equal -- either both paying patronage dividends or not.

BY MR. VAUGHAN:

Q. In the case of ccoperatives, how will profits be determined? A. The onus will fall on the tax department to determine what the profits are.

Q. And that all the profits be taxed, including anything that might be paid out as a patronage dividend, provided dividends are not allowed as deductible in an ordinary company? A. Yes.

BY MR. NADEAU:

Q. Is there a cooperative association distributing fluid milk in the Montreal area? A. There are one or two, I am not sure which, operating in the Montreal area under the name of cooperatives. I do not know whether they are tax exempt or whether they pay tax in the distribution of fluid milk.

BY MR. ARNASON:

Q. Just one more question. In the event that privately-owned companies were allowed to distribute patronage

dividends among their customers before arriving at taxable income, would you care to offer any opinion as to whether such practice might be followed rather extensively by the organizations which you represent? Do you think, in other words, it might become a fairly common practice?

A. I think it would depend altogether on the circumstances. I do not think in ordinary circumstances it would.

BY MR. THORVALDSON:

Q. I would like to ask a question or two, Mr. Hayes, When you were talking about the patronage dividends, particularly in the questions you were asked by my learned friend Mr. Parker, were you speaking generally as to all cooperatives or were you speaking particularly as to dairy cooperatives? A. I was speaking particularly as to dairy cooperatives.

Q. And you did not intend to refer to other types of cooperatives which are generally known as consumer cooperatives, did you? A. No.

Q. And I perhaps should ask you also were you referring particularly to what I would call eastern cooperatives, or did your language intend to refer to western cooperatives as well and their methods of doing business? A. I cannot speak first hand of their methods of doing business. We were referring to the eastern situation.

Q. The reason I ask you is that your brief seems to be based on one example which you refer to, which appears to be the example of the Montreal Milk Producers Cooperative Association. You were here and heard the evidence of Mr. Carr? Did you hear the brief of that organization? A. No, I did not.

Q. You were here and heard Mr. Carr's evidence? A. I heard part of it.

Q. You realize that in respect of that particular cooperative there does not seem to be any payment in the nature of a patronage dividend, is there? Do you discern any payment made by Montreal Milk Producers Cooperative Association as a patronage dividend? A. I heard him make the statement that that was the case.

Q. Doesn't it appear to you that the Montreal Milk Producers Association simply pays out, I might say empties its till every month as far as its producers are concerned, and then apart from that the only deduction is a deduction for certain reserves? Doesn't that appear to be the situation there? A. I don't think that is quite the case. I don't know the operations of the company, and I didn't hear all the evidence, but an examination of the statements would indicate that there are appropriations to reserves at the end of the year, contingency reserve, general reserve, depreciation reserve, write-offs for assets, and then there is some balance carried to surplus.

Q. Yes, that is right; but have you been able to see in the operations of that Association anything in the nature of a patronage dividend? A. No.

Q. So don't you think you were rather generous when you were suggesting that patronage dividends should be allowed free of tax? A. Not in the type of cooperative I had reference to, and provided they are allowed to private companies.

Q. What you really meant, then, Mr. Hayes, was this: that if an association operates such as the Montreal Milk Producers Association, namely pay out everything to their producers every month, and then place certain funds to reserve such as they do, you would be satisfied in that

case if the funds placed to reserve were the only funds taxed? That is really what you meant, isn't it? A. In that case, yes.

Q. What I really want to bring out, Mr. Hayes, is that in respect to that association there is nothing involved in the nature of patronage dividend that you see, is there?

A. Not that I have seen, no.

Q. I am suggesting to you that your brief is somewhat broad when you refer to patronage dividends in respect to an organization of that kind. A. Well, may I just correct that: we were not referring to that organization in connection with patronage dividends but as an example of how quickly reserves can be built up when no income or excess profits taxes are exacted on the amounts so credited.

Q. Now, Mr. Hayes, a moment ago Mr. Vaughan referred to clause 2 on page 6, which does seem to me to be inconsistent with your reference to patronage dividends on page 3. I think in clause 2, where you suggest that the profit or surplus of cooperatives should be taxed under the provisions of the Income War Tax Act and the Excess Profits Tax Act on the same basis as are the profits of other persons operating in the same line of business, you really have in mind something similar to the recommendation of the 1932 committee in England, have you not? In other words as I understand it you want to see cooperatives placed on a similar basis for taxation purposes to that of other companies; is that correct? A. Yes.

Q. Are you aware of the differences between the English income tax laws and the Canadian income tax law?

A. Some of them.

Q. And you are aware that there is not the double

taxation of corporation profits that we have here?

A. Yes.

Q. And are you aware that that might make some difference when it comes to a consideration of the Canadian situation as to patronage dividends? A. I quite agree it might make some difference.

Q. You agree that would make some difference?

A. If you want to get complete equalization I think you have to eliminate your double taxation of corporate earnings.

Q. Suppose you do not get that elimination, then what would you say as to the patronage dividend in general where such is paid now? Don't think of the Montreal Milk Producers Association, because there is none paid by it. Would you revise your views in cases where we are not able to eliminate double taxation on corporate earnings?

A. In this connection one can only speak on behalf of the members of the Association with whom I discussed these points. I would take it from my discussions with them that notwithstanding the inequity which would still exist through duplication of corporate earnings in connection with distributions to shareholders of limited companies they would be reasonably happy if taxation were imposed on co-operatives, the type of cooperative to which we have had reference, generally speaking along the lines suggested, and they were also given the opportunity of paying patronage dividends themselves. There is a recognition of the inequity which would still exist.

Q. But when you do say that you have in mind the fact that in the case of the one you are particularly referring to, the Montreal Milk Producers Association, there is no

such thing as a patronage dividend as such? A. Yes.

Q. And when you are speaking of the patronage dividend as being exempt or otherwise you are speaking particularly of the dairy situation? A. Yes.

BY MR. MILLIKEN:

Q. Mr. Hayes, looking at your brief I think I rightly counted thirty-eight firms' names signed to it, fourteen of which have the word "limited" after them. Does that mean that twenty-four of them are not limited companies?

A. I believe that is correct.

Q. That would mean there are twenty-four of them that are either partnerships or individuals? A. Yes.

Q. And if the excess profits tax should disappear with the end of the war, what disadvantage would they be under as compared with the producer cooperative?

A. Presumably none.

Q. It is the excess profits tax that would affect the partnership? A. Yes.

Q. So that of this group of thirty-eight there are only fourteen that were involved in the company business that you are referring to? A. Yes.

Q. Now I do not like to take you into the English cooperatives, but I notice you have quoted two paragraphs out of the English report. You understand, do you, or do you not, that that report is dealing with consumer cooperatives? A. I thought it dealt with them generally.

Q. You didn't know there was any distinction made?

A. I am afraid not.

Q. You understand, Mr. Hayes, the reasons -- for the very reason my learned friend has stated, they haven't a double tax, and as that producer in the producer cooperative pays the tax when it is paid to him, there is naturally

a difference in their set-up for producer cooperatives and that for consumer cooperatives, for that very reason,-- because of the double tax, and because the producer has it added to his income. I wonder have you given any consideration to this. A number of witnesses who have been brought before us have given as their main objection to patronage dividends that have been allotted and not paid, that have been held for the revolving door, the fact that it delays taxation of them -- now I am talking about producer cooperatives entirely -- that it delays taxation of them because they are not in the tax until the year they are paid out. Have you heard that statement anywhere?

A. No.

Q. Then there is no use in asking your opinion on it, because you cannot possibly have one on it. Mr. Hayes, how is the producer's cooperative which read a brief just before you came on the stand in competition with any of these businesses, or is it in competition with them? A. There is very little competition, I understand.

BY MR. LONG:

Q. It has become obvious from the questioning that we have been held up as a horrible example on pages 4 and 5 of this brief which Mr. Hayes has just presented. Mr. Hayes, I think I heard you say you heard the evidence in support of the Montreal Milk Producers? A. I heard part, not quite all of it -- most of it.

Q. You heard Mr. Carr say they were putting aside some money for new machinery, new plant? A. Yes.

Q. You heard him say that the life of dairy machinery was ten years? I didn't hear him say that, but I would not dispute it.

Mr. Hayes

Q. And that he is in a rented building. Could you tell us out of your experience how else we could get the new plant or new machinery under our cooperative set-up?

A. I don't know whether you have power to borrow or get it through share capital. I cannot answer that.

Q. I presume you looked into it somehow. A. I do not know your by-laws, Mr. Long.

Q. You are not in a position to give us any suggestion as to how we could get new machinery without taking it out of --

MR. PARKER: He has just given you two.

THE WITNESS: I know of no way except through borrowing and through share capital.

BY MR. LONG:

Q. You are not speaking of cooperatives now?

A. I do not know whether that is available to you or not.

Q. And if it is not available to us how else could we do it? A. I presume in the same way you got the money to build your original plant.

Q. We did not build a plant. A. Or buy your equipment. There was some \$58,000 for equipment.

Q. Is it your knowledge that most of the members of your association have from time to time used the surplus milk fund? A. No.

Q. So that you are not in a position to say whether it has been of any benefit to your association or not?

A. No. The secretary is here if you would like to ask him.

The Commission adjourned until Tuesday, February 20, 1945, at 10 a.m.

Montreal, Que.,
February 20, 1945

The Commission met at 10 a.m., Mr. Justice McDougall presiding.

MR. BEAUREGARD (text): May it please the Commission, I will proceed, if the Commission is agreeable, with the reading of the translation of the memorandum of La Cooperative Federee de Quebec. I have in court six or seven witnesses, two of the officials of the Federation, which is a federation of cooperatives, and I have furthermore three or four, possibly five witnesses who are heads of local cooperatives that have been chosen from various parts of the province, because the conditions are not the same all over, by far.

THE CHAIRMAN: That will give a picture of the whole movement?

MR. BEAUREGARD: This is with the intention of giving a picture of the whole, in the most progressive areas as well. So, if it is agreeable to the Commission, I will proceed with the reading.

THE CHAIRMAN: Are you reading the brief in French or in English?

MR. BEAUREGARD: I will read it in English.

THE CHAIRMAN: If you prefer to read it in French, that is all right; these gentlemen will follow on their English copies.

MR. BEAUREGARD: I noticed yesterday that the Commissioners were making numerous notes, so that after the reading I will present my witnesses for explanations on the various points.

(Translation):

Mr. Beauregard proceeds with the reading of the memorandum.

Memorandum of the Societe Cooperative Federee Des
Agriculteurs de la Province de Quebec, known as "Cooperative
Federee de Quebec", or Quebec Federated Cooperative, and of
the Affiliated Agricultural Cooperatives under chapters 120
and 290 R.S.Q. 1941

"The cooperative movement in Canada is the normal
reaction of consumer and primary producer against the economic
domination of commercial corporations.

"By way of preface, it may be well to sum up the
respective situation of the parties, as set forth in the
Royal Commission of Inquiry into Price Spreads of 1935.

"In Chapter 3 of this report (p.14) the Royal Commission
of Inquiry into price spreads renders the following judgment
on the three parties affected:

"1. Concentration and Corporate System of Business

"The evidence before us has shown conclusively, and at
times graphically, the part played by the corporate form of
business in Canada's economic life. It has shown that a few
great corporations are predominant in the industries that
have been investigated; also that this power, all the more
dangerous because it is impersonal, can be wielded in such a
way that competition within the industry is blocked, the
welfare of the producer disregarded, and the interests of the
investor ignored.

"As the hearings into various forms of economic activity
were carried on, it has been difficult not to be impressed
by the fact that the corporate form of business, not only
often gives freedom from legal liability, but also facilitates
the evasion of moral responsibility for inequitable and
uneconomic practices. Therefore, it is essential that any
investigation into business practices should concern itself

with the growth and significance to the national economy of a form of business activity which has harboured behind its imposing facade so much that needs cleansing.

"The following appreciation is given concerning the situation of the primary producers, my clients:

"2. The Primary Producer, Chapter 6 of the same report, page 143:

"This chapter summarizes our investigations into the plight of the primary producer. These can be epitomized at once by saying that the prices of the primary products, into which we have made inquiry, have fallen far below the point that would permit the maintenance either of operating efficiency or of a reasonable Canadian standard of living. Yet, it is the most obvious platitude to state that, unless the primary producer in this country is restored to a position where he has purchasing power commensurate with his importance, there can be no stable basis of prosperity. Though the truth of this statement is admitted by all, the fact remains that, as stated in our opening chapter, the primary producer has borne the brunt of the depression. He was the first, and the greatest sufferer. Other groups in the community were able, to some degree at least, to protect themselves from the full effects of the storm, but the farmer has been defenceless, or almost so, throughout. The manufacturer, the middleman, the distributor -- all have attempted and, in some cases, have successfully attempted, to operate on a cost-plus basis. What the farmer secured as the price of this labour often had no relation whatever even to direct costs. He, too often, has taken what was left after other interests have secured their share of the consumer dollars. (Text): I would refer the Commission on this to the evidence of the Hon. D. G. McKenzie, which is reported in Volume 1

of the Stevens Investigation, the volume entitled "Proceedings and Evidence". I am referring to pages 998 and following -- two or three pages.

(Translation); Here is the description of the consumer to the same report:

"3. The Consumer, chapter 8, page 235 of the same report: 'The various problems of consumer protection can only be dealt with effectively by a combined effort on three fronts, namely, consumers, trade associations and government. Unless consumers are prepared to exert a reasonable discrimination in purchasing, nothing short of absolute paternalism can protect them. But they must be informed on the principles of merchandising and the standards of quality of goods they buy. We, therefore, regard consumer education as the most important and effective guarantee against illicit practices in trade. Few of the evils, disclosed in the evidence, by which merchants have been able to impose upon their customers could persist in the face of an active, intelligent and organized or special interest and has no representation other than the state. It is, therefore, the function of the government to pay special attention to the interests of the consumer. This does not preclude action by consumers themselves as individuals or groups, We would welcome organizations of consumers, either as individuals purchasing organizations, or in organizations for the dissemination of consumer information, and we are of the opinion that every possible encouragement should be given by the government to the development of such organizations. These would offer valuable help to the government in the dissemination of information and in the policing of trade.'

"We leave to the Commission the task of appreciating what the State has done toward correcting the deplorable state of affairs created by concentration and by the corporative

system of business. Nevertheless, the primary producer and the consumer have obeyed the federal government's invitation and that of the provincial governments, to protect themselves by means of associations and cooperatives.

"It is estimated in general that in 1942, 620,000 Canadian cooperators did \$257,000,000 of business and collected a net revenue of \$25,000,000.

"It is evident that it is this \$25,000,000 which it is now proposed to make subject to income tax. At first sight it is an imposing figure, but it can easily be seen that it does not quite amount to \$40.00 a year per patron.

"In Quebec, during 1943-44, of a total of 154,000 farmers, 44,069 members of cooperatives did \$37,558,676 of business with a net revenue of \$977,169 or rather less than \$20 a year per patron. See Schedule 1.

"The parties Appearing:

"The parties are: the "Societe Cooperative Federee des Agriculteurs de la Province de Quebec, better known as The Cooperative Federee de Quebec, or Quebec Federated Cooperative, and three hundred and ninety agricultural cooperatives, -- I must add that since then there has been an increase. They may be well over four hundred now -- formed under the law governing farm cooperatives or under the law governing cooperative syndicates of the statutes of the province of Quebec, called affiliated cooperatives. They represent 34,000 Quebec society members, out of a total of 44,000.

"The agricultural cooperative societies and the cooperative syndicates of Quebec, governed respectively by chapters 120 and 290 of the Revised Statutes of Quebec (1941), are cooperatives for the purchase, sale and processing of farm products and of any and all goods for the improvement and the development of agriculture.

"The object and the purpose of agricultural cooperative societies are described in section 2, chapter 120, R.S.Q.1941.

"2. The Minister of Agriculture may authorize the formation, in the province, of one or more associations having for their objects one or more or all of the following: the improvement and development of agriculture or of any of its branches, the manufacture of butter or cheese or both, the sale and purchase of live stock, farm implements, commercial fertilizers and other articles useful to the agricultural classes, and the purchase, preservation, transformation and sale of agricultural products, under such name as its founders may choose, provided that such name as a whole cannot be confounded with that of any other existing association."

"The object and purpose of the cooperative syndicates of Quebec are described in section 6, chapter 290, R.S.Q. 1941, which reads as follows:

"6. The object of the association shall be to study, protect and defend the economic interests of the labouring classes. For that purpose it may buy for re-sale to the associates only, such articles as are necessary for the support of life or for the works of their industry; open up credits for them and make loans to them; establish works in common for the associates, or allow them to devote themselves to processes of production and to sell all the products thereof, either collectively or individually.

"The association, notwithstanding that it is limited to a special territory, may enter into any transaction with any person, corporation or voluntary association, necessary for the proper working of the society or the carrying out of its objects; but all transactions of the association, which yield profits or benefits, shall, being essentially cooperative, be confined to the members."

(Text): I would point out that this article which I have just recited appeared in statutes of 1909. They were not intended to defeat the present situation.

(Translation): "The Cooperative Federee de Quebec is governed by a special act entitled 'An act to incorporate the Quebec Federated Cooperative' sanctioned in 1922 and revised in 1930.

"The Federee is a cooperative of cooperatives; it can only accept as members cooperative associations, syndicates or societies incorporated under the regime of the Agricultural Cooperative Societies act or the act respecting cooperative syndicates of the province of Quebec.

"Affiliation gives to cooperatives the same rights and privileges as these same cooperatives give to their own individual members.

"Affiliation does not imply absorption. It is an association or a juxtaposition, in which each society or affiliated syndicate retains its autonomy. The Federee places its educational, administrative and commercial services at the disposal of its affiliates.

"Order in council No. 8725:

"Order in council 8725 does not go as far as to prejudice the case, but in its introduction it states that inasmuch as cooperatives benefit from exemption both from war income tax and from excess profit taxes, doubts have arisen.

"1. as to the general principles which parliament intended to apply, which brings up the question of principle;

"2. as to the effect, in several questions of detail, of the said tax acts on the cooperative organizations and their members, which brings up the question of the incidence of taxation.

"It ordered that a complete public inquiry be held into

the application of the income and profits taxes, both as regards organizations formed and operated on a cooperative or mutual basis, and also those that are only cooperative in name, and also on the effect these exemptions have in respect of the competition which cooperatives constitute for their commercial rivals.

"Consequently, this Commission is called upon not only to inquire into

- '(a) the present situation of the cooperatives, as regards the application to these cooperatives of the War Income Tax Act and the 1940 law on excess profits taxation, and
- (b) the organization and methods of commercial operations of the same cooperatives, as well as any other matter pertinent to the question of application of income tax and excess profits tax measures,
- (c) the comparative situation with regard to the taxation under the aegis of the said acts, of persons operating any kind of business in direct competition with the cooperatives.'

But, furthermore, to establish principles which may guide the administration in the carrying out of the present acts, with regard to genuine cooperatives and also with regard to cooperatives which apply only partially the principles of cooperation, and even, in the public interest, to draft amendments to the present acts.

"In a word, the present inquiry is intended to reply to one single question: Is it in the public interest that bona fide cooperatives should be called upon to pay an income tax and, in the affirmative, what tax?

"In other words, is it time, in view of the complaints of business, to stop the progress of cooperatives? The

The Royal Commission of Inquiry into Price Spreads concluded without hesitation that at the time of that inquiry, there was no balance between trade, on the one hand, and the primary producer and the consumer on the other, the situation of the latter being absolutely unsatisfactory.

"Without doubt, the initiative of the associations, combined with the fact of war, have resulted in a certain development of cooperatives, but competitive trade has equally not remained stationary. Do we really think the cooperatives have advanced to a point where the balance between them and competitive trade has been upset? It would really appear that the cooperatives, at least in Quebec, have not so much taken away existing trade from their commercial rivals, as they created a production and a demand which would not have existed but for them. Whatever that may be, what is meant by balance? Is it the state of affairs revealed by the Royal Commission into Price Spreads in 1935? Must we, in the public interest, go back to that? Who knows it, perhaps even despite the cooperatives, post-war conditions will not bring us back to it, without the help of the state?

"The Question: In the Public Interest, Should Co-operatives be Taxed?"

"The parties now appearing intend limiting their effort to pleading the case of bona fide cooperatives in general, and that of agricultural cooperatives in particular. They cannot do it, however, without taking up briefly the study of basic principles.

Preliminary Remarks:

"1. The precise time at which this question is put is not unimportant. The question is being asked during the war, that is to say, during an abnormal period, when the volume and the price of primary products is at such a high level that no economist would claim that it could or should be permanently

maintained. In all justice, a permanent economic legislation cannot be based on the indications of an exceptional period.

"2. The progress of agricultural cooperatives appear to have caused disquiet in some circles, but it is a constant factor that this progress has been largely due to artificial causes, among others, premiums of all sorts on grain, bacon, cheese, butter, etc.

"A striking example is at hand. The government artificially fixes the price of No. 1 wheat at, say, \$1.20 a bushel. The average cost of production of a bushel is about 60 cents. The government premium is about 60 cents. Any tax on the income of the wheat producer is ipso facto a reduction in the government's premium.

"3. As an individual, the farmer, a primary producer, is already subjected to the Income Tax Act. The legislator knows that the income of the farmer is, in the immense majority of cases, a family income, to which all members of the family have contributed. Therefore, it is permissible, provided wages are really paid to the family, to deduct these expenses from the taxable income. But how many farmers can, without wrecking the whole economy of their set-up, pay real wages to their wives and children? The actual outcome is that the global revenue of the whole combination is considered as the income of the head of the family, without regard to the participation of the wife and the children. That is not the case with the income of any other taxpayers. Wife and children are treated as distinct units by the collector of taxes. The farmer is therefore already at a disadvantage in that respect.

"The Income of the Cooperatives Should not be Taxed:

"There are several reasons why the income of a cooperative should not be subject to taxation. The first, in our view, has

to do with the educational role of these agricultural associations.

"It is only incidentally that the cooperative competes with private enterprise. In reality it has an other object in view. Its role is social. Its primary objective is education of the primary producer as to the use of his farm, the quality of his products, their classification, their presentation and distribution.

"In distant regions, the cooperative offers buying and selling facilities which would not exist without it. It allows the primary producer in every case to sell his product at the market price, even if the vendor itself does not know what the market price is. In the province of Quebec at least, entire districts have been opened to production by the agricultural education of the primary producer. The cooperative is only interested in expansion, in so far as it brings to those connected therewith advantages of all sorts, and in that respect it serves the same purpose as those educational organizations which are exempted from income tax by virtue of section 4(e).

"The second reason comes from the fact that the cooperative is essentially a service organization.

"It differs from private trade whose objective is profit, in that the cooperative only places its financial, technical and commercial facilities at the disposal of the producer. It does not buy its patrons' goods. It receives them on consignment and sells them on the open market at the highest possible price. It turns over this price to the producer, less a negligible commission, which is fixed by its members. Similarly it buys in the open market the things that are needed on the farm, and sells them mostly to its members, and in all cases, only to primary producers.

"It is not customary in trade to allow the person with

whom one deals, whether buyer or seller, to decide how much profit the merchant shall make on each purchase or sale. That is because a merchant is not a service organization. Whether it is buying or selling, the whole purpose of a cooperative is to make the operation profitable to its patrons.

"The third reason derives from the fact that the net income of the cooperative is neither a profit nor an income within the meaning of the act.

"A commonplace example will prove this. From the experience of others, primary producer "A" has learned that instead of paying, say, four cents a pound for having the farmers of one or more parishes, hire the services of a competent technician and have a better and more uniform product at a lower price.

"Producer 'A' and his neighbours have therefore begun by paying the four cents a pound to the technician. The latter, thanks to considerable volume of produce and adequate machinery, can cut the cost of manufacture of a pound of butter to 2.80 cents a pound, so that producer 'A' first gets from his cooperative the price his butter brought on the market, and later, 1.20 cents a pound which he advanced in the first place, now returned to him.

"It is exactly this 1.20 cents which he advanced too much in the first place, which it is proposed to tax, because out of this original excess disbursement the cooperator has permitted his cooperative to retain a part, in order to set up a reserve with which to recommence similar operations with other farm products.

"The reserve thus constituted remains the property of the cooperator to the extent to which he has contributed. Whether it is, for the moment, in the possession of the cooperative or in the possession of the cooperator, it does

not constitute a profit, but simply a loan arising from the reduction of the cost of production of the cooperators.

"In other words, the cooperative, instrument of education and of service, sees its working capital constantly renewed and controlled by the members of which it is the extension. To tax the price of the services of this instrument would be equivalent to taxing the individual, who is already subject to the Income Tax Act.

"What is erroneously called 'the profit of the cooperative' is in reality nothing but savings, or accrued revenue belonging to the producer who could, if he chose, insist on being immediately repaid. Generally, in his own interests, the member elects not to take the whole of what belongs to him, during the course of the operations. Nevertheless, what he parts with the society, and what the latter calls 'revenue' or 'reserve', has always been and remains the individual property of the patron, including the profit resulting from transactions of the society with non-members. This profit of the society is only an accessory of the reserve, which remains at the service of the primary producers, whether they are members or not.

"An examination of the operating accounts of the Quebec cooperatives will show that the latter cannot accumulate reserves out of the rental of their services, which is cut to the minimum. Accumulated reserve and surplus result from the return of moneys paid in in excess, which the primary producer leaves, advances or loans, in order to facilitate future operations of which he remains beneficiary.

"The portion of the overpaid contributions which the member decides not to take out would further serve to reduce the taxable income of the individual. That amounts to about \$20 per individual, per year. Nevertheless, one cannot

legitimately tax the agricultural society, which is in fact only a mandate-holder, and holder on precarious title.

"The fourth reason does not properly speaking derive from the same principle, but still does not seem to us to be of less value.

"If the value of the services rendered by the cooperative to the primary producer is admitted, - and the competitive trade must admit it, since it sees therein the factor which has reversed the situation of 1935, - the cooperative is therefore essential to the progress of the farmer. Hence,, the cooperative is essential to the principal element in the life of the nation.

"If it is proposed to hamper the social and educational work of the cooperative by means of taxation, that means it is intended to hamper the progress of agriculture for the so-called competing trade.

"That cannot be done, unless you overlook the fact that you will strike at 600,000 farmers out of a total of a little more than 1,000,000. This cannot be a matter of indifference to the public interest.

"The farmer is not only a producer of the principal wealth. He is also known as the most stable and the most stabilizing element in the nation.

"As property owner, and attached to the soil, he is the least inclined to subversive doctrines.

"The cooperative adds to that stabilizing element, in that being a simple instrument of service it does not create any artificial demand. It contributes to maintain what in business language is known as an orderly market.

"There are no doubt other reasons for exempting the cooperatives from income tax. The commission has access to many sources of information that are closed to us, but we have

reason to believe that these additional data will in no wise invalidate the conclusions which the agricultural societies of Quebec have reached through forty years and more of experience

"Answers to Questionnaire 1 (a) of Order in Council P.C.8725

(Text): May it please the Commission, the other part is treated as answers to questions, which the parties thought would be asked of them if they were before the Commission at the time.

(Translation): To the information incidentally furnished in the above statement, the parties add:

"1. By virtue of the present act, they are neither subject to income tax, nor to excess profits tax;

"2. In fact, local agricultural associations have never been notified nor required to do so;

"3. About 92 per cent of the agricultural associations appearing before this commission show a net annual income of less than \$5,000 (see schedule 2, reports of the Agricultural Cooperative Associations of the Province of Quebec as of March 31, 1944, published by the Department of Agriculture of the province of Quebec, division of cooperation, Rural Economics Division);

"4. The Cooperative Federee de Quebec shows a net annual revenue of over \$5,000 (see schedule 3, 22nd annual report of the Cooperative Federee de Quebec, February 10, 1944);

"5. La Cooperative Federee de Quebec:

(a) delivers every year a return (according to Form T-2 in 1943) to the Income Tax Department, together with a copy of its balance sheet thereto attached. The same form is completed for the Dominion Elevator Company and the Cooperative Canadienne du Betail de Quebec, Limitee, with the following note: 'This Company is an affiliate of the Cooperative Federee

de Quebec, which holds all our capital stock, our assets, and assumed our liabilities. Likewise, our annual results - whether profit or loss - are absorbed by the Federee;

"(b) delivers also a statement concerning interest paid on loans. This statement gives the list of beneficiaries and amounts paid to each one.

"(c) makes the required deductions from annual dividends paid to preferred stock holders and pays the amounts thus deducted to the income tax;

"(d) has never paid any income tax proper, nor has ever received any notice of assessment (section 54, Income War Tax Act)

"Answers to Questionnaire 1(b) of the Order in Council
P.C. 8725

"To the information incidentally furnished in the above statement, the parties add:

"1. Agricultural Cooperatives are limited liability associations, organized under Chapter 120, R.S.Q. 1941;

"2. Cooperative Syndicates are limited liability associations, organized under chapter 290, R.S.Q. 1941;

"3. The Cooperative Federee de Quebec is a cooperative of cooperatives, with limited liability, organized under 'An Act organizing La Societe Cooperative Federee des Agriculteurs de la province de Quebec, which was sanctioned in 1922 and revised by 20 Geo.V..R.S.Q., p. 148;

"4. The parties now appearing are not commercial enterprises, but educational and service organizations. Their properties are, by law, exempt from all provincial government taxes;

"5. They apply the following cooperative principles;

"(a) One vote per member;
Freedom of entry and exit;
Non-denominationality, political and
ethical neutrality of cooperatives;
Education of cooperators;
Distribution to each member of overpaid

advances, in proportion to the amount of
business done with him;
Limitation of rate of interest on capital;'

"6. The statement of the financial set-up of the Federee
can be summed up as follows:

Share capital:

Preferred, without vote:

Former common stock converted into preferred stock in
order to eliminate individuals and to let the Federee function
as a cooperative of cooperatives \$146,550.00
Common stock; in the rate of 10% 109,355.78
Bonds 139,200.00
Loans: Bank \$1,400,000.00
Cooperative Wholesale Society
(Manchester, England) 486,000.00
Sundry (personal obligations) 227,000.00 2,113,000.00

the whole being more fully shown in the copy of the 22nd
Annual Report, February 10, 1944, filed in support of the
present memorandum, as schedule 3.

"7. The local agricultural association is composed of
at least twenty-five persons, subscribing five or ten common
shares of \$10 each. The association can take in any farmer
designated under the name of affiliated producer, on payment
of an annual contribution of \$2.00;

"8. The agricultural cooperative association may bind
itself towards the Cooperative Federee de Quebec to subscribe
to and pay on the capital stock of the said cooperative a
proportion of its own ordinary shares paid up at the date
of the agreement, as well as of its ordinary shares which may
thereafter be paid up;

"9. Affiliation obliges the local cooperative to do
its buying and selling through the Cooperative Federee.
It is important therefore to note that the reports, Schedule 2

and Schedule 3, duplicate the aggregate totals of business operations of the Federee and of its affiliates;

"10. The directors give their services gratuitously except the manager, who may be remunerated;

"11. A report containing the list of members, the number of shares subscribed and paid up, and a statement of assets and liabilities as well as of the year's operations with instances of profits and losses, must be forwarded to the Department of Agriculture before the 15th February in each year.

"12. Cooperatives, including the Federee, do not buy agricultural products. They receive them on consignment. Whatever the Cooperative buys for its members, it sells to the latter, with or without processing, at such price as covers costs and a margin of safety.

"13. The processing of products bought for resale to members remains an accessory operation;

"14. The services of the Federee are available to the affiliated societies, since they are integral parts of the Federee, and to every society or individual wishing to profit by them;

"15. The following quotation taken from a pamphlet published by the Superior Council of Cooperation and the Cooperative Federee de Quebec (1943), filed as Schedule 4, outlines the educational and collaborative methods of the Cooperative with regard to the agricultural class;

"The cooperative is above all a service and educational organization for the farming class. In the economics of cooperation, education replaces what would be called propaganda and publicity in non-cooperative economics.

"This is not simply a different name for the same sort of activity. Among the preoccupations of those who direct

commercial publicity and propaganda, the dominant idea is to increase the business, and thereby, the profits. The activities indicated by the term 'education' are somewhat different from those carried on under the aegis of propaganda and publicity.

"In fact, cooperatives are not called upon to incite members to do business, or force sales, but rather to organize, according to the real needs of those with whom they are dealing, those services that are indispensable to the improvement of their social and material conditions of life.

"The means at its disposal are varied: newspapers, radio, meetings of cooperators, general and special meetings of cooperatives, meeting with officers and managers of local associations, collaboration with professional groups, contact with technicians of agriculture, industry and commerce and with specialty in economic and social questions.

"Under the title 'Market Review' the Cooperative publishes every week its 'advance' prices accompanied by comments on the situation and trends of agricultural markets.

"The following considerations on the organization, principles and methods of private enterprise, reproduced from a review by the Federal Department of Agriculture, 'The Farm Economist', vol. 14, No. 4, p. 88, will show that the appearing parties - judged by what we know of them - are within the true tradition of cooperation;

"Some of the specific differences in principles and methods which generally characterize private and cooperative enterprise are the following:

"1. The cooperative is generally open to all who wish to cooperate to obtain the service offered. In private enterprise, the number of those who have a say in the control and management of business is reduced to the minimum required

to secure capital.

'2. The control of cooperative organizations is distributed amongst all members, whether they have a dollar or a thousand dollars invested in the organization. A member is entitled to only one vote and cannot vote by proxy, except under certain circumstances provided for under certain provincial laws. Private enterprise is generally subjected to the control of those who hold voting stock, each share carrying a vote which can, generally, be recorded by proxy.

'3. Cooperatives are incorporated under a special law or under special sections of a general corporation law; they generally retain the characteristics of limited liability conferred by the general law under which private corporations are incorporated.

'4. Member shares in cooperatives, generally of low par value, are not offered for sale to the public and are not delivered except upon request to the cooperative. Normally, all who wish to use the services of the cooperative can become members thereof, but the total investment of each one is often limited, as well as the return on capital. Private enterprise generally start from the principle that capital must be acquired as quickly as possible, and the shares can generally be bought or sold on a market, speculative or otherwise, and the return is unlimited, according to the nature of the investment.

'5. In a cooperative enterprise, all the remaining surplus, after deduction of the real cost of operations, generally returns to those who have utilized the services. In a private enterprise, all profits obtained generally return to the shareholders, or to a portion of the shareholders, in proportion to the value or number of shares they hold.

'Many other methods or principles which may or may not be applicable to private industry are common to cooperative

enterprises, namely: racial neutrality, class and political neutrality; sales at current market prices; cash sales; education of members and of the general public in cooperatives principles; cooperation between cooperatives and extension of services by means of federations of cooperatives, and suppression of labour troubles.

'A general treatise on cooperative organization would contain most of the principles and some of the management methods of the typical cooperative. Modern cooperatives recognize the pioneers of Rochdale as the first association which successfully combined all the principles and systems described.'

'The provincial legislature, supreme in matters of civil law, through special legislation concerning agricultural associations, cooperative syndicates and the Federee, has characterized these associations as civil associations, subordinating the commercial aspect to the social and educational features.'

"Answers to Questionnaire 1(a) of Order in Council P.C. 8725"

"To the information incidentally furnished in the course of the foregoing statement, the appearing parties add:

"The comparative situation, with regard to the tax, under the said laws, of persons exercising any type whatever of business in direct competition with the cooperatives', has been appraised by the Royal Inquiry into Price Spreads, in 1935. The Income Tax Act and the Excess Profits Tax Act are the only legislation which has intervened since then to alter the situation of the parties interested.

"The Commission now knows the motives which lead the cooperatives to expect to be exempted from this tax. Their character, their object, the part they play and the advantages they bring to the farming class are proof enough of their contention.

"Without prejudice, and subject strictly to what has already been alleged by the appearing parties, if one merely compared the financial situation of the agricultural cooperative and that of its competitor, as well as their business methods, the one solely concerned with opportunities of service, the other solely actuated by the profits, it is obvious that even loaded with taxes, the competitor is not in any inferior financial position to that of the Cooperative.

"If the parties now appearing were right in claiming that the Cooperative is only an extension of the cooperator, the parties at variance are not really the cooperative and the commercial corporation, but really the cooperative member and the commercial corporation.

"In Quebec, at least, the Agricultural Cooperative, in a ratio of 95 per cent, does not show an annual net income of \$5,000. Without having made a preliminary inquiry, we are ready to state that there is not one per cent of competing commercial corporations not showing an annual income of over \$5,000.

"As to the proportion of competition which the Cooperatives may incidentally give to the competitive commercial corporation, a fairly accurate idea thereof can be gathered from the statement of the estimated gross value of farm production in Canada (1942), p. 214, Canada Year Book, 1943-44. The gross value of farm production in Canada is therein established at \$2,136,529,000. And against that, we have the sales-price value of the volume of business done by cooperatives, at \$257,000,000.

"On the same page of the same Year Book, you will find the gross value of farm production for the province (1942), assessed at \$325,567,000. All the agricultural cooperatives put together in Quebec have but sales-price volume of business

of \$24,638,499, of which \$18,000,000 is done through the Federee.

"Before striking at agriculture's best servant, it would be well to appreciate the farmers' real degree of prosperity, eliminating for the moment the appearance of prosperity which arises from premiums and grants of all sorts, some federal, other provincial.

"It would appear that a method of appraising the degree of agricultural prosperity is to determine the average value of the principal instrument of production, namely, farming.

"Here is the statistical comment on that subject (Canada Year Book, 1943-44, p. 215):

"Average Value of Farm Lands - The average value per acre of farm lands is based on the estimates of farm correspondents. They show an increase from 1910 to 1920, a general decline marked by moderate fluctuations from 1920 to 1929, and a rapid drop, since 1929, to a level lower than that of 1910 for the country taken as a whole."

Finally, if the rates of the basic period as to normal tax and excess profits, were applied to the Cooperatives of Quebec, including the Federee, the joint effort of the government and of the farmer would be wiped out at the very moment when their cooperation is most useful, both from the standpoint of the economy of the country and from that of the creation of a highly necessary social stability.

"The whole respectfully submitted,

Montreal, February 14, 1945.

Elie Beauregard

Attorney for the Parties now
appearing."

(Text):

I just want to elaborate in a few words on this last paragraph. The Commission will find on the last page of the report of La Federee the volume of sales from 1930 up to this year. The Commission will see that the volume of sales in the standard years would be some \$10,500,000; so if you take those standard years to adjust the standard taxation on income and then the excess profit, you will find that you have taken about everything. That is why I say in this last paragraph: "En appliquant le bareme de la periode de base..." ("...if the rates of the basic period ... were applied..."). The basic period is from 1936 up to 1940, not including 1940 -- 1936, 1937, 1938 and 1939. If you apply this measure as to the taxation on income plus the excess profit you will see that this firm, which was in the trade in those years -- and it is a federation of all the farmers and has eighty per cent of all the operations of all the locals -- would have to pay nearly all its revenues in taxation.

(Translation):

THE CHAIRMAN: On behalf of the Commission, I am pleased to thank you for your very able and precise presentation.

MR. NADEAU: Excellent presentation, Mr. Senator. May we have copies of your financial statement?

MR. BEAUREGARD (text): Yes, Mr. Commissioner. I now offer my witnesses. Mr. Bois, general manager of La Federee, may be heard.

(Translation):

HENRI BOIS,

General Manager of the Cooperative Federee
de Quebec, 130 St. Paul Street East, Montreal,
who, after being sworn on the Holy Evangelists,
testified as follows:

BY MR. BEAUREGARD:

Q. Will you give us your qualifications? I understand

that you are the president of the Cooperative Federee de Quebec? A. I am chairman of the executive of the Cooperative Federee de Quebec and general manager of the same institution.

Q. Your profession? A. I am an agronomist.

Q. Since how many years? A. Since twenty-four years.

Q. I wish to ask you a question before passing you over to Mr. Brossard who has some questions to ask you. This morning, you drew my attention to some evidence given before this Commission yesterday concerning the Cooperative of Matane. Will you please state to this Commission what are your reactions to the newspaper articles concerning the accuracy of that particular evidence given before the Commission yesterday?

A. The evidence in question would lead to believe that the Cooperative of Matane was rather in bad shape and that the results of its operations were not conclusive. As a matter of fact, the Cooperative of Matane is in excellent position and, last year, if my memory serves me right, its surplus takings amounted to two thousand and some dollars and its assets reached \$22,000.

BY THE CHAIRMAN;

Q. Does it belong to your federation? A. Yes, your lordship.

MR. BEAUREGARD (text):

This is the report on all cooperatives, and in schedule 2, you will find the names and the statements of all these local cooperatives. This has been compiled by the provincial government, the department of Agriculture, to which all locals have to report

(Translation): Q. You have identified the document I now show you? A. Yes.

Q. Will you please tell the Commission what is that document? A. This document is prepared by the Cooperative

Division, Rural Economics Branch of the Province of Québec and it is a compilation of results obtained during this year by nearly 500 local agricultural cooperatives affiliated or not with the Federee.

BY THE CHAIRMAN:

Q. You are satisfied with it? A. I think it is accurate.

BY MR. BEAUREGARD:

Q. Will you say, very briefly, what is the information given by this compilation? A. This compilation, in the first place, gives the name of the association, its head office, the year of its foundation, the number of its members, the nature of the subscription, the assets of the association, both cash and fixed assets; accounts payable, ordinary capital, preferred stock, reserves, surplus; it also gives the total amount of business done, the total of profits or surplus-takings, the value of the various products dealt with by the associations and the names of the president and the secretary.

Q. Do you wish to file this document with the Commission and attach it to the memorandum? A. Yes.

BY MR. BROSSARD:

Q. I understand that you are the president of the Cooperative Federee? A. I am the chairman of the executive; the president of the board of directors is Mr. Pinsonnault.

Q. As chairman of the executive what are your duties?

A. They consist in applying the decisions taken by the Board of Directors, who base these decisions on the ones taken by the members at their annual meeting.

Q. Am I to understand that these duties correspond to those of manager? A. I am also the manager, at the same time.

Q. Did you take part in the preparation of the memorandum which Mr. Beauregard has just read?

A. I have discussed it.

Q. It is on information supplied by you to Mr. Beauregard that the memorandum has been, in part, prepared?

A. In part, and also on all information gathered by Mr. Beauregard himself.

Q. In the memorandum, it is stated that the appearing parties are the cooperative Federee and 390 agricultural cooperatives, and Mr. Beauregard has stated this morning, that since the memorandum has been prepared it has been found that the number of such cooperatives exceeds 400?

A. Yes.

Q. Can you tell us what mandate the Cooperative Federee must have received from these 390 or 400 cooperatives in order to prepare this memorandum?

A. Since the question of assessing the surplus-takings of local cooperatives has been raised, at every occasion, the officers of these local associations have expressed their anxiety and have asked us what we would do. When it has been decided that a commission of inquiry would be appointed for that purpose, we communicated with these associations and invited them to help us to do what was necessary to protect them. Our board of directors, representing the local associations affiliated with us, met prior to to-day's sitting and prior to the appointment of the Commission and it was always understood that we were to undertake the defence of our local associations.

Q. I understand however that the memorandum has not been submitted for the approbation and the ratification of your affiliated associations before being presented to this Commission? A. It has not been.

Q. Are you in a position to state positively that the memorandum faithfully represents the opinions of associations

affiliated with the Federee? A. Absolutely.

BY THE CHAIRMAN:

Q. Of course, you mean: not unanimously?

A. I would be surprised of the contrary.

BY MR. BROSSARD:

Q. Do you know any of your affiliated associations which might have expressed opinions contrary to those expressed in this memorandum? A. No.

BY COMMISSIONER NADEAU:

Q. Did they ever have the memorandum in their possession?

A. No.

BY MR. BEAUREGARD:

Q. Are they desirous of paying taxes? A. No.

BY MR. BROSSARD:

Q. You are in a position to testify on the organization of the Federee from the standpoints of capital and management?

A. From the standpoint of the cooperative's general policy and its object, yes. As for the accounting part of it or the question of supplying you with definite figures, I would prefer that you call on Mr. Martin who was entrusted with that task. We divided the work among ourselves.

Q. I understand the Cooperative was incorporated by a special act in 1922? A. Yes.

Q. It was constituted of the three other associations already in existence? A. Yes.

Q. Which ones? A. Le societe des cultivateurs de Ste. Rosalie (the farmers' association of Ste. Rosalie), le Syndicat Cooperatif de Montreal (The Cooperative Syndicate of Montreal), and la Societe Centrale de Quebec (the Central Association of Quebec), which in 1922, in order to cope with depressed prices of farm products, saw fit to merge.

Q. They were merged together by virtue of the act of 1922,

13 George V, chapter 109?

A. Yes.

Q. These three constituent associations were themselves composed of a few members, what type of members?

A. Of farmers.

Q. Of individuals? A. Yes, of individuals,

Q. Neither one nor the other of these three associations comprised as members cooperative syndicates or agricultural cooperative associations? A. Not to my knowledge.

Q. When the amalgamation took place, did these members of the three constituent associations acquire interests in the new federated association? A. Yes, moreover the Act explains that.

Q. You would have at the present time a certain category of members who would be individuals forming part of the three constituent associations? A. Yes, there remains a minority

Q. Consequently, in your memorandum, you state at one point, I believe, that la Federee is essentially a cooperative of cooperatives? A. Yes.

Q. This statement would have to be corrected by saying that it also comprises individuals as members?

A. For the past fifteen years, since 1930, no individual can acquire common shares and consequently become a member. The individuals who held common shares prior to 1930 are for that matter a small minority, - Mr. Martin could give you the exact figures, - and which is gradually disappearing and I do not think one can say that the existing cooperative is not a cooperative of cooperatives because there are one thousand or twelve hundred individuals who bought shares fifteen years ago.

Q. What is the capitalization of the Federee? I believe that under the Act it is two millions divided into 1,500,000 preferred shares and 300,000 common shares?

A. On December 31, 1943, common capital stock amounted to \$109,355.78 and preferred capital stock to \$146,550.

Q. In securities? A. In securities.

Q. Representing how many shares in each case?

A. Let us set the value of the preferred shares at \$10 and that of the common shares at \$25, plus the first of our individuals to whom you referred a moment ago, - I have not got the exact proportion, but I do not think that the first represent much in our ordinary capital stock. I have a list, but I have not got the number.

Q. You have not got the number of common shares held by individuals in the Cooperative Federee?

A. We have, but I have not got it at hand.

Q. Does it represent a substantial or very small proportion of the value of the common shares issued?

A. A very small proportion.

Q. As for the preferred capital stock, is it held entirely by these cooperatives or is it held in part by these individuals?

A. It is held mainly by individuals. Here is what explains the presence of this preferred capital stock in our organization. Note that this preferred capital stock does not give a voting right to those who hold it. The board of management always gave a return of six per cent on its capital. In 1930, when the act of 1922 was revised and made of the Cooperative Federee a cooperative of cooperatives, the board of management then in office decided to abandon the plan of giving a return on ordinary capital but to offer to give a return of six per cent to those who would convert to ordinary capital. The immense majority of common stockholders at the time decided to convert their shares, and that is what explains the amount.

"Q. The common share capital of the old members of the first constituent cooperatives is not all converted into

preferred shares? A. No, not all, there remains some.

Q. The majority? A. Yes.

Q. Similarly a certain number of common shares acquired after 1922 were also converted into preferred shares?

A. Yes.

Q. Is it not equally true that by virtue of your Act, the Cooperative Federee can, instead of paying an amount representing six per cent on common shares, distribute the surplus of this income in preferred shares? A. Yes, I believe that is possible.

Q. Was that done? A. No.

Q. That has not yet been done? A. No.

Q. As a matter of fact, the Federee has not yet put such a decision into effect? A. No.

BY THE CHAIRMAN:

Q. Do you always pay the six per cent interest?

A. We paid it regularly each year, with the exception of two years, 1933 and 1934. Interest payments were resumed in 1935.

Q. Interest payments are being made at the present time?

A. Yes.

BY MR. NADEAU:

Q. Who are the preferred stockholders?

A. They are mainly farmers, people who formerly held common shares and who changed them for preferred shares. Now, are they all farmers? . . .

Q. Can you give us an idea of the proportion?

A. No, I never considered the matter from that angle. I will say with all reservations that at least two thirds are farmers.

BY MR. BROSSARD:

Q. But the preferred stockholder has the right to deal

in his shares on the approval of the board of management?

A. Yes.

Q. What qualifications must a person have in the first place to become the holder of preferred shares?

A. I see nothing. In the first place, as a matter of general policy, we refuse to make transfers, we prefer refunding this capital and, to my knowledge, I never saw any transfers of preferred shares, and there is no restriction in regard to the purchaser.

Q. Therefore, they could be transferred to others than farmers or primary producers?

A. To the ones and the others.

Q. As for the common shares, you stated that these can only be issued in favour of cooperators? A. Yes.

Q. Since 1922? A. Since 1930.

Q. But there remains nevertheless a certain number that were issued in favour of individuals? A. Yes.

Q. What is the maximum number of shares a member can hold in your Federee? A. At the present time?

Q. Yes. A. The number of common shares which an association or a syndicate can hold is based on its ordinary paid-up capital. It is equal to ten per cent of this ordinary paid-up capital. An association that has a capital of \$1,000, then ten per cent gives you \$100. The shares are in amounts of \$25, hence that makes four shares.

Q. Must I understand that when a cooperative syndicate wishes to affiliate with the Federation, it must pay a sum representing at least ten per cent of its own capital and pledge itself in future to pay a sum representing ten per cent of every increase in its capital? A. Of its ordinary capital stock, yes.

Q. That is compulsory? A. Yes.

Q. Consequently, each of the cooperative syndicates or agricultural associations presently members of your Federee or affiliated with your federee has subscribed an amount of at least ten per cent of its capital stock? A. Yes.

Q. Will you explain to us how a cooperative syndicate or a cooperative agricultural association can become an affiliated member of your Federee? A. The association or syndicate must comprise at least twenty-five agricultural producers each of whom subscribed at least \$50 to their association and pledged themselves to this association by contract to sell to or purchase from through its medium products set out in the contract. There, we say he is qualified to become affiliated. When he affiliates with us, the act entails upon him the obligation of paying ten per cent of his paid-up capital. He becomes a member with the shares we transfer to him.

"At that moment, he must bind himself by contract to us. We undertake to receive his goods, to sell them, to supply him with all goods he binds himself to receive or purchase from us.

Q. Is the undertaking on one part and the other an exclusive undertaking? Does each syndicate or each association that affiliates with the Federation not bind itself by this undertaking to sell only to your Federee and to purchase only from your Federee?

A. For the products mentioned in the contract, that is the undertaking he agrees to.

BY THE CHAIRMAN:

Q. Is there a clause establishing compulsion?

A. Yes.

BY MR. BROSSARD:

Q. You have the forms of this undertaking? A. Yes.

Q. Could you forward copies of it to the Commission?

A. Yes.

Q. Is the form of contract exactly similar for each of the members? A. Not with respect to its text, not always with respect to the products to be purchased or sold, but we aim at establishing uniformity, and an association makes a contract with us for the same products as its immediate neighbour even if it does not handle them, even if it does not look after placing or selling them.

Q. Now, the period during which the contract is in force may vary? A. Yes, it ordinarily holds for three years.

Q. And it is renewable automatically? A. Yes, with a notice of thirty days.

Q. Therefore, it is an undertaking for the syndicate or the association to sell the products mentioned in the contract only to the Federee? A. To consign them to the Federee.

Q. Are these products forwarded on consignment to the federee? A. They are consigned.

Q. What is the procedure followed on the occasion of each shipment of products on the part of a local syndicate? What documents are exchanged between the Federee and the local syndicate?

Q. There is a formal acknowledgment of receipt; it is during the basic selling period; there is at the end of the selling period a remittance which is the market price less the commission we charge. We make our payments on products at different periods. Sometimes, we make payments every week, for instance, for eggs, butter, cheese. For other products, the period may be longer; as for other commodities, there is no set period we will pay when the product has been placed.

Q. What will be the price you will pay?

A. The market price less the sale costs and less the agreed commission of five per cent, in certain cases; other times, it is a sliding tariff according to our costs and the expenses incurred to place the goods.

Q. But that price will not be the price at which you yourself will sell the merchandise? A. It will be the market price less the sale costs. It will not be the market price. If the market price is \$1 he will not get \$1, it will be less the sale costs. The shipper will receive a statement indicating the quality of the goods, the price charged, and what remains.

Q. Are the prices charged fixed?

A. No; some are fixed and others are variable. We have set commissions for certain products; in the cases of others, the amount yielded will be about fixed but it may vary by one sixteenth or one thirty-second in the case of butter and cheese, for instance.

Q. Under what conditions will it vary? A. According to the difficulties of placing the product and the costs incurred.

Q. Is that determined in advance? A. Yes, that is agreed to in advance and our prices are not definite. The price of the previous week is not a certainty for the following week; the price may be higher or lower. That will depend on the article received, its quality, the difficulty of placing same.

Q. If I understand correctly, you pay on fixed dates and you pay the market price of the goods they have shipped to you, after deducting therefrom a fixed commission in certain cases or in others the selling costs? A. Yes.

Q. And such selling costs are practically fixed and determined in advance? A. In certain cases they are determined absolutely, as in the case of cattle. Federal regulations

determine that. In the case of certain products, it is a commission charge known in advance, let us say five per cent. In the case of other products, there is a price list according to the quality of the goods received and the costs which the sale of same entailed.

Q. Are the prices liable to vary? A. Evidently.

Q. I understand that prices are liable to vary according to the quality of the goods because it is you who determine the quality? A. It is not us, it is the product itself that determines its quality.

Q. How is the quality determined? A. The government inspector in certain cases, when there is an official grading; when we ourselves do the grading, we determine the quality.

Q. There are certain cases where you yourselves determine the quality of the goods and you grade them yourselves?

A. Yes.

Q. Consequently the grading is not done by the ordinary syndicate? A. Yes and no. You have syndicates that will grade their product before sending it; others will send it without grading and leave with us the responsibility of grading it.

Q. You yourselves will grade that commodity and it will be according to that grading that the price to be paid to the syndicate will be determined? A. Yes. If you will allow me, I will give you an example. Take eggs. In recent years grading organizations have been set up in rural district; they candle their eggs and ship them as such. Others have no organization of this kind and they send us eggs we have to candle and grade. There cannot be any question of treating those groups on the same footing. It is in such cases that our commission can vary.

Q. Now, is that grading made with reference to the

generality of the products shipped at a given moment by a local syndicate? A. No. The shipments, that again depends on the products, the shipments of each product are identified.

Q. They are identified in what manner and as belonging to whom? A. To the individual member of the local.

Q. In certain cases the product is identified as belonging to a member of a local? A. Yes.

Q. But in other cases, it is not identified as belonging to the individual member of the local?

A. No; in the case of butter, for instance, there can be no question of the identification of the cream belonging to X; that is not possible.

Q. Yet that product is graded? A. Yes.

Q. And that grading justifies you to pay to the local cooperative a more or less high price depending on the grading being more or less high? A. Yes.

Q. The price to be paid to the local will be a total price paid for this particular product to the local syndicate? A. Yes.

Q. It is possible for the local syndicate to know what is the portion of the shipment graded A and what is the portion of the shipment graded B that belongs to the members of the local? A. The portion of a shipment which is let us say 10 per cent of No. 2 and 90 per cent of No. 1 coming from the same syndicate and shipped at the same time is determined and the syndicate knows what it has. For instance, in a shipment of butter, 95 per cent of No. 1 boxes and 5 per cent of No. 2 boxes, in addition we tell what, in our opinion, seems to be the cause of the weakness of the 5 per cent. We try to do educational work in regard to No. 2. Now, they cannot and we cannot say "the ten boxes of No. 2 belong to A, B, C or D; that is utterly impossible.

In the case of seed grain, the grain will be brought to a local cooperative, graded by federal inspectors and there, the individual will find again so much No. 1 and so much No. 2, and we will pay on that basis.

BY MR. BEAUREGARD:

Q. You identify the product whenever it is possible?

A. Yes, we do that whenever it is possible.

BY MR. NADEAU:

Q. Do all shipments reach you directly from your local associations? A. Ordinarily, yes.

Q. Does that imply that you receive directly from individuals shipments of products which you are asked to sell, to dispose of in their name? A. Yes, it happens that individuals send us goods and ask us to sell them. We sell them according to the same rules, according to the same procedure and with the same cost charges as if this individual was an ordinary member. We give him the same service but not with the same costs. When the commission is five per cent, we charge eight per cent to non-members.

Q. If he is a member? A. If he is a member, he gets his shipment identified by his local secretary and everything is handled as if it were the society.

BY MR. BROSSARD:

Q. On the same basis as if it were a syndicate product?

A. Yes.

Q. Am I to understand that you do not receive exclusively products coming either from local syndicates or from members of local syndicates? A. Farm products?

Q. Yes. A. Yes, it happens that non-members make shipments to us.

Q. What, in your opinion, would be the percentage of business you do with non-members with reference to the purchase of farm products?

A. You mean receipt in consignment, because we do not buy them any more.

Q. Yes. A. The proportion, perhaps thirty per cent on an average.

BY MR. NADEAU:

Q. Is such a proportion established in your books, in general accounting? A. To-day, yes.

Q. You make the distinction? A. Yes.

Q. You are in a position to give the exact figures? A. Yes; the exact figure is 69 per cent of our operations.

BY MR. BROSSARD:

Q. It is in the ratio of 30 or 31 per cent? A. Yes.

Q. They are consignments received from members other than your branches or from your branches themselves?

A. Yes, for more details in that regard, I have asked Mr. Martin to break down all that information. We divided the work. It is about 30 per cent.

Q. When you sell those products which you receive on consignment, is the sale made by you as owner of the goods or is it made with an indication that you are merely acting as representatives of either the local syndicates or the members or the members of local syndicates.

A. Most of the purchasers with whom we deal know the organization and know that the product is not ours, and we do not find it necessary to say "This belongs or does not belong to us"; we offer the article for sale.

Q. How do you invoice the goods you sell? A. To the buyers?

Q. Yes. A. In the name of the Cooperative Federee.

Q. Without any indication whatever that it is a product that does not belong to the Cooperative Federee?

A. No.

Q. From the moment the product is delivered at your warehouses, - I still have in mind the product coming from the local cooperative syndicates, or the members of such syndicates or from non-members, -- from the moment the product was received by you at your warehouses, if it should perish or become damaged, on which will be the burden of loss, on the Federee or on the local syndicates?

THE CHAIRMAN: .. legal question; perhaps Senator Beauregard will be able to answer more fully.

MR. BROSSARD: I want to know if as a rule they assume the loss or if they pass it on to the local. I do not want to know what is the situation in law; I am inquiring as existing fact.

Q. Did it happen that goods perished or were destroyed?

A. Yes, it happened that shipments were made to us of goods that were unsuited or badly packed or again potatoes that were frozen. The shipper is the one who bore the loss; we tell him: "Your product reached us in a damaged condition, it has deteriorated." I could add this: that in the fall of 1943, when the stockyards were congested, we suffer losses which we assumed ourselves.

Q. I understand that when the loss was noted at the moment the product arrives at your warehouse, you charge the loss, in practice, to the shipper; and before it has been delivered to the ultimate purchaser, in actual practice, it is you, the Cooperative Federee, who suffers this loss, who assumes it? A. When it seems to us that we are responsible for this loss, that something is amiss with us, we will absorb it. If the loss is due to the state of the goods, that is not the same thing. For instance, we receive live animals. Those animals may or may not be healthy. If they are healthy, if they die before being sold, which seldom happens, because

they were neglected and we believe we are to some extent responsible, we pay. We never went into the question to determine if we were legally responsible..

BY MR. BEAUREGARD:

Q. You do not plead with your locals? A. No. Take chickens, for instance. Chickens in bad condition have been shipped and the quality fell off rapidly and they are in bad condition at the time of the sale.

BY THE CHAIRMAN:

Q. The tenor of the question is this: Are you supposed to be owners?

BY MR. BROSSARD:

Q. Are you in a position to explain to me this item appearing in this statement of operations for 1943 and which runs under the caption of "Direct costs": Insurance, \$15,737. What kind of insurance is that? A. In the matter of figures, I would prefer that you should call Mr. Beauregard, our accountant, or Mr. Martin.

Q. I want to know what kind of insurance this is.

A. We have insurance on cattle. No, it cannot be that.

Q. Note well that in your statement of operations for 1943, there are two insurance items: the general item under the caption of "direct costs" \$15,737, and another item of general insurance under the caption of "general costs", \$22,000.

A. We probably have under general costs fire insurance and the stock insurance covering our branches and our properties. Now, as for the other, I should like to see that account before making a definite statement. The other refers to general insurance.

BY MR. NADEAU:

Q. If you allow me to revert to the question we were considering a moment ago. I understood you had produced the

contract passed between the subsidiary and the Cooperative Federee? A. I believe so.

Q. Have you the by-laws of the Cooperative Federee, because this contract refers to the by-laws of the Federee?

MR. BEAUREGARD: We have produced the by-laws as schedule IV, but I believe there is only one.

BY MR. BROSSARD:

Q. On this matter of insurance, you are under the impression that one part covers - that of general expenses - fire and stocks? A. Yes.

Q. All stocks including those received on consignment?

A. Yes, the breakdown of the first item of \$15,737, before giving an answer that may not be accurate I should rather not trust to memory. Mr. Martin will tell you exactly.

Q. When a loss occurs, do you know to whom the insurance company pays the money?

A. The amount of insurance is paid to us if the loss relates to one of our properties or our stocks.

Q. What do you mean by "your stocks"?

A. I suppose we have a fire that destroys stocks we have in storage, whether they belong to us or not, we are the ones who are paid.

Q. And the shipper, the party who had forwarded this stock, would be paid not by the insurance company out of the proceeds of the insurance but will be paid according to the procedure you indicated a moment ago at the end of the time allowed in the contract or of the time allowed by custom.

A. You mean that we will pay for this lost or damaged product at the normal expiration of the period of time rather than wait until the insurance is paid?

Q. That is it. A. It might happen that we would pay after the normal period.

Q. In practice, is that what you know? A. We do not have fires every fortnight.

Q. But there have been fires? A. There have been fires; we had stocks that belonged to us; that was not the same thing. When we supply the farmer with goods he needs, we purchase such goods. It is particularly in such cases that we suffered damages. As for the others, we take out insurance on cattle. We charge a fraction of the amount we are charged. We handle that insurance ourselves. In that case, we pay our man if the animal died.

Q. You pay that insurance? A. Yes. We make them pay a contribution of six or eight cents.

Q. Part of the costs you make them pay constitutes the insurance premium? A. Yes.

Q. I should like to know at what moment you pay the farmer in case the cattle are destroyed, for any reason whatever? A. We pay him when we make a settlement for the whole shipment.

Q. Regardless of the fact that you would have a claim to make against others? A. Yes.

BY MR. NADEAU:

Q. Are these really your by-laws that are published in this little booklet? A. The by-laws concerning affiliation?

Q. The by-laws of the Central organization?

A. As for written by-law, we have virtually none; we follow the law,

Q. Because by-laws are mentioned in your affiliation contract. You follow the provisions of the Act, but your central association has no by-laws.

A. I see your point. In the case of an affiliation, the executive council has determined, in its minute book, what the association must be in order to be affiliated or not. Is

that what you want?

A. Yes.

A. I am sorry, they have not been copied. You have only an extract; they can be procured for you.

BY MR. BEAUREGARD: You will file them as Exhibit 5.

A. Yes.

BY MR. BROSSARD:

Q. I am going back a little. Among the affiliated members are there only syndicates, only local agricultural associations, or are there also some federations of syndicates?

A. We have no federations; they are associations.

Q. What are exactly the four hundred members mentioned in your statement? A. They are associations or syndicates the greater number of which are syndicates of 75, 100, 150 persons organized under the provisions of the Act. Now there is another association which has recently become affiliated and which collects the orders from the other associations, and we have been considering the groups which are organized under the Act and belonging to that association.

Q. In respect of the shares of that association, which one is a member of the Federated? Each one of the members?

A. The association itself.

Q. You have in this particular case, as member, an association which is itself a group of local syndicates?

A. Yes.

Q. Which is the association concerned in this particular case? A. The Association of Chicoutimi, Lake St. John North.

Q. How many syndicates does it include?

A. Twenty-five, I think; syndicates or cooperative associations.

Q. What kind of cooperative associations?

A. Ordinary cooperative associations which, instead of dealing

directly with us, have found that it was more advantageous for them to get together and to deal through the other association.

Q. They deal through the Chicoutimi Association?

A. Yes.

Q. The name of which is? A. Chicoutimi Agricultural Cooperative Association and its head-quarters are at Lake St. John North.

Q. As regards the Lake St. John North Association, all the transactions you have just described are with the Chicoutimi Agricultural Association? A. Yes.

Q. There is therefore no direct connection between the Federated Cooperative and the twenty-five or thirty local syndicates comprising the Agricultural Association?

A. Not thirty, but about twenty-five, and we deal with the Chicoutimi Association; its job is to look after the orders and to ship the goods and that is where we send our own shipments.

Q. Do you deal like all the others? A. Yes.

Q. On the same conditions? A. On the same conditions. In this case, we have made arrangements taking into account the volume of orders. For instance, this association will buy presently ten carloads of seeds at this time of the year and will take delivery. In that case we give the benefit of the interest. For the rest, the procedure is the same. There are some rebates on big orders and this is not unusual. It happens sometimes when an association gives a big order.

Q. On account of volume? A. Yes.

Q. Are there any other groups of the same kind affiliated to the Federated? A. No, I can't say from memory. I don't remember.

Q. I understand that the Federated Cooperative itself

has other subsidiaries than the cooperative syndicates and the cooperative associations? A. We have warehouses.

Q. In your statement, page 13, you mention the Dominion Elevator Company and the Canadian Live Stock Cooperative, Limited? A. Yes, they are two associations belonging to the Federated Cooperative, namely the Dominion Elevator and the Canadian Live Stock Cooperative.

Q. Are they stock companies?

A. They have been organized under the Companies Act.

BY MR. NADEAU:

Q. Both of them? A. Yes, both.

BY MR. BROSSARD:

Q. And it is the Federated Cooperative which holds all the subscribed and paid up capital of both companies?

A. Yes.

Q. Entirely? A. Entirely.

Q. What is the capital stock of the Canadian Live Stock Cooperative? A. That is what I am looking for. Dominion Elevator: issued, twenty shares of \$100 each; authorized, 400 shares of no par value. Canadian Live Stock Cooperative: issued, twenty shares of \$100 each; authorized, 200 shares of \$100 each.

Q. How many directors has the Dominion Elevator?

A. There are five directors, all employees of the Federated Cooperative, and they have endorsed their shares to the Cooperative.

Q. Is it the same in the case of the other company?

A. Yes.

BY THE CHAIRMAN:

Q. While we are on the subject, in your balance sheet the capital stock is stated as follows: Common stock, \$109,000, and I see that this is in the proportion of ten

per cent. One of my colleagues is asking if ten per cent is the amount subscribed and paid-up? A. You are referring to the common stock, \$109,345, in the balance sheet?

Q. In your statement, you say: Common in the proportion of ten per cent. A. That is the paid-up common stock of the local association, of which ten per cent is set apart at the time of affiliation and turned over to us.

BY MR. NADEAU:

Q. What are the purposes of the Dominion Elevator?

A. Chiefly to act as silo and elevator operators, to act as guarantors when we give the grain in the elevator as collateral for a bank loan.

BY MR. BEAUREGARD:

Q. For banking operations under Section 88?

A. Yes.

Q. And you set your grain apart? A. Yes.

BY MR. NADEAU:

Q. In order to comply with the Grain Act? A. Yes, and the Bank Act.

BY MR. BROSSARD:

Q. Is it exclusively a grain elevator? A. They are called elevators, and they also make ...

BY MR. BEAUREGARD:

Q. They make shorts. A. Yes, and feed.

BY MR. NADEAU:

Q. Are your subsidiaries participating? A. At the year end, the balance sheet of the Dominion Elevator is consolidated with that of the federated. But you mean share participation probably?

Q. Yes. A. No.

Q. Does this Dominion Elevator publish an annual balance sheet? A. Yes.

Q. Could we get some copies? A. Yes.

BY MR. BEAUREGARD:

Q. What is the exact nature of the operations of the Dominion Elevator? A. The Dominion Elevator acts as keeper of our grain.

Q. It is a corporation incorporated under the Companies Act and it has therefore its own purpose and existence. What is the nature of its operations?

A. It receives and stores grain, feed.

BY MR. NADEAU:

Q. Does this grain belong to the members?

A. No, it is grain purchased to supply local associations.

BY MR. BROSSARD:

Q. Is it grain purchased exclusively to supply local associations? A. No.

Q. Do you sell any to other purchasers besides the local associations? A. Yes.

Q. In what proportion? A. In the main, as I was saying a few minutes ago, about thirty per cent.

Q. To other people than members? A. Yes; out of the total sold by both the Federated and the Dominion Elevator to our firm, at the mill, 275 carloads out of 3026 went to ordinary customers.

Q. That is customers who are not members? A. Yes, non-members, plain individuals, 2,500 in round figures to affiliated associations or to our branches, and 248 to non-affiliated associations. Now, as to the share of dominion elevator in this, I would say that the greater part of the business with non-members is done by them, but I have never ascertained it. It could be ascertained, though.

Q. You think that the greater part of the business with non-members is done by Dominion Elevator rather than by the

Federated? A. I think so.

Q. Are you in a position to tell us what is the volume of business done by Dominion Elevator? A. Mr. Martin will give you that information.

BY MR. NADEAU:

Q. Are non-members, dealing with Dominion Elevator, entitled to refunds or rebates?

A. When it is an association which can become affiliated, we offer to credit its account with half the profits made in the preceding year if it is willing to join in the year beginning then.

Q. You are referring to cooperative associations which are not affiliated? A. Yes. As far as others are concerned, we give private individuals, at the time of the sale, the same advantages as any affiliated association, but private individuals are not entitled to year end refunds.

BY MR. BROSSARD:

Q. Are you still referring to the Dominion Elevator?

A. The Dominion Elevator and the Federated Cooperative in general.

Q. Have you any idea of the volume of business you are doing with non-members?

A. I would say about thirty per cent.

Q. Thirty per cent of your volume of business? A. Yes.

Q. Now do you know, while we are on this subject, to what extent your subsidiaries deal with their members only?

A. You mean local associations?

Q. Yes, local associations. A. It is hard to say. However, I know of some associations which deal with their members exclusively. Others accept non-members very often because it is nearly impossible not to do so. Take a place where there is only one butter or cheese factory, with 150

farmers in the district and 100 of them belonging to the association. Are they going to make the other 50 take their milk and cream to the next village? It is the same thing in the case of goods for occupational use. The association has a store with chemical fertilizers and feed to sell. A non-member farmer comes in. Is the association going to turn him down? As to the proportion, I couldn't give it to you for the local associations. I believe the Department of Agriculture is the only place where you can get this information, if it is at all available.

Q. Do the local associations keep a record of the sales they make to their members and to non-members? Do they make a distinction? A. Yes.

Q. They must know? A. Yes.

BY MR. NADEAU:

Q. But through your system of supervision, by means of the service you give the local associations, don't you keep tab on the situation? A. We encourage them to deal as much as possible with their members but they retain their self-management. I cannot give any percentage about it.

Q. You have no idea. A. Idea ... I would say ten per cent, perhaps fifteen; it is pretty hard to say with some five hundred and eighty associations in the province.

Q. Here is another rather direct question. In your opinion, should the profits or surplus or saving resulting from your business with non-members be subject to taxation? A. You are asking for my opinion?

Q. Yes. A. On behalf of the Federated Cooperative?

Q. For the whole. I am asking you this question because other statements from cooperatives suggested imposing a tax in such a case. A. I do not think that profits resulting from transactions with non-members should be taxed when such

profits are made by associations which are practically obliged through circumstances to deal with non-members. I mentioned a while ago the case of butter and cheese factories. When an association tries to drum up business among non-members or when it exceeds a certain percentage in this kind of business, it might be all right to impose a tax. On the other hand, one must take into account, I think, the efforts made by those groups to improve the technical or commercial education of their members and this is available not only to their own members but to everybody else; they give their services free of charge to all; they are ready to welcome, at any stage of their development, any farmer who makes application.

Local cooperative associations are undoubtedly responsible for several improvements in our farming methods and, to mention a more typical case, in the production of flax. When farmers were asked to take it up in the province of Quebec on account of the war situation, our people grew flax and built cooperatives which ran into a lot of money. All the flax growers did not like to assume this risk, but naturally and necessarily they go to those plants to have their flax processed. Must the profits from this work be subject to taxation because of 25 or 30 farmers who do not want to belong to the associations? The same thing applies to butter and to seed grain. A score of years ago, there was no industry of seed grain production worth mentioning. To-day, we have one. The cooperatives have built it up. Men with foresight have built it up at their own risks, and that is where the taxation of profits from non-members come in, when such transactions are unsolicited by the association but seem rather different to admit.

Q. I suppose you are aware of the financing system called

"Revolving Door Fund". Is such a plan in the province of Quebec? A. Here is what happens in the province of Quebec: When an association is organized, the whole of the capital needed is not subscribed right away, but only in part, for the construction of a butter or cheese factory, for instance, at a cost of \$8,000; only four of \$5,000 is raised. The liabilities will have to be paid and, in order to pay them, the association keeps, to the credit of each individual, the profits which otherwise would have been paid out to him, and applies them to the payment of the liabilities; when the debt is paid in full, the profits are again distributed. That is the Revolving Door Fund.

Q. Is it being used? A. Yes, even by the Federated Cooperative.

BY THE CHAIRMAN:

Q. What do you call it in Quebec? A. We never tried to give it a name.

BY MR. BROSSARD:

Q. In addition to the Dominion Elevator, you have the Canadian Live Stock Cooperative? A. Yes; it is a live stock sales agency. It is the successor of a national organization established in the country in 1929 and dissolved in 1932. We have kept the organization and the name. Now, this association sells live stock; it receives consignments of cattle which it resells to those who need them.

Q. Does it receive its live stock exclusively from members of the federated?

A. No, the greater part comes from our members.

Q. Have you an idea of the proportion purchased from non-members? A. No, Mr. Martin will give you the figures. I think it is 75 per cent from members.

Q. Does it handle the sale of live stock exclusively?

A. Yes, any four-legged animal.

Q. Have you any slaughter-houses? A. No.

Q. Does the Federated Cooperative own any? A. Yes, one at Princeville.

Q. It has none in Montreal? A. No, not in Montreal.

Q. Is the Princeville slaughter-house a big one?

A. It can handle about 1,500 head of cattle per week. It was built when, after the fall of 1943 and the losses incurred by the farmer on account of the congested condition of the markets, we decided to put a stop to the situation.

Q. At this Princeville slaughter-house, does the Cooperative buy exclusively from its own members? A. With regard to the cattle sent to it on consignment?

Q. Yes. A. Yes; a considerable portion of it comes from its members; it is supplied by a group of farmers in the neighbourhood.

Q. You have no idea of the volume of business done at Princeville? A. I can give you an idea of it for the last year.

Q. Mr. Martin will be able to give us those figures? A. Yes.

Q. Now, have you not also as subsidiary the Montreal milk and cream cooperative, registered? A. Not since last March; it was sold.

Q. Sold to whom? A. To an association called the La Laiterie Notre Dame.

Q. It is not a cooperative? A. No.

Q. Is it a private enterprise? A. Yes.

Q. A private enterprise which however was operated by you as your personal property or as a distinct entity?

A. The milk and cream cooperative was purchased when a group of farmers who had organized it failed to make it pay. The

cooperative operated it as one of its own departments until it was able to dispose of it.

Q. You do not own any flour mills? A. No.

Q. What other enterprises do you own? A. We have a slaughter house at Princeville, and a butter and cheese factory at Victoriaville.

Q. That factory is not incorporated? A. No, it is an extension of the Federated Cooperative. We own a warehouse at Rimouski.

Q. What kind of warehouse? A. I should say, rather, a general store of farming products and occupational utility goods, with a few cold storage rooms.

BY MR. NADEAU:

Q. Do you handle a retail business in Rimouski?
A. No.

BY MR. BROSSARD:

Q. To whom does this warehouse cater? A. To farmers.

Q. To farmers belonging to cooperatives? A. To farmers who belong to cooperatives and to farmers who are not members of any there.

Q. Does this store differentiate between members and non-members? A. No; I would not say that, because our local managers have instructions to dispose of the products they have for sale mainly to our associations, but there is always the question of refusing at a certain time to sell to individual farmers or groups of farmers who are coming in.

Q. Where is this warehouse you are talking about?

A. At Rimouski.

BY MR. NADEAU: Q. Have you not a branch in Quebec City?
A. Yes; we have in Quebec City a station for receiving farm products and for delivering occupational utility goods to farmers bringing in their produce. We have also in Quebec

city an establishment for the preparation of feed and the storage of butter and cheese. We formerly had a place for killing poultry, but we have to build elsewhere.

At LaSarre, we have a similar establishment. In a word, those establishments were built to help the operations of farmers and cooperatives in the districts where the warehouses are situated.

Q. What kind of products do you handle at your Rimouski store? A. Feed, chemical fertilizers, insect powders, binder twine, occupational utility goods.

Q. Barbed wire for fencing? A. Yes.

Q. If you are agreeable let us come briefly to the goods which the federated buys to resell to its members? A. Yes.

Q. Are those purchases exclusively limited to goods intended exclusively for members of your federation or for members of your subsidiaries? A. We buy for our members the things they require in connection with the operation of their farms. Our operations are conducted in view of the probable and potential demand of the 397 or 398 associations; it is very difficult to estimate exactly that demand. At any rate, we fail to do so and, in view of the fact that on the other hand we must offer a permanent service every day in the year, we buy more than our estimate of the potential demand at a given date; this surplus is placed at the disposal, not only of members but of others. It represents more or less the same percentage I gave you previously.

Q. Twenty-nine or thirty per cent? A. Yes.

Q. Therefore, there is twenty or thirty per cent sold and resold to other people than your members?

A. At the year end we make it twenty-nine per cent.

Q. As regards these transactions, you buy and resell?
A. Yes.

Q. You are for a time owners of the goods and you sell them to your subsidiaries? A. Yes.

Q. You do not buy for them, but you buy for yourselves? A. Yes, that is right in this sense that we are billed for the goods. I cannot ask a seller in the west to bill 300 associations of the province of Quebec. We are billed ourselves and we pay the account.

Q. On what terms do you resell, first to your members, and secondly to your non-members?

A. We resell those goods after adding to the price what seems to us sufficient to meet our expenses and leave a certain margin of safety. If that margin is too high, at the end of the year we give back to our members what we think can be returned without endangering the enterprise.

Q. What margin of safety do you require generally; what does it represent in relation to the cost price?

MR. BEAUREGARD: I wonder if we are not getting into commercial statements likely to be detrimental to merchants. The Commission is entitled to have this information, and if it wants it, I submit that it will obtain it. I wonder whether we are not entering the domain of exact trade methods where the law of competition plays an important part. We have no objection to answer the questions of the Commission.

THE CHAIRMAN: It is factual evidence. Here is the policy we adopted out west: the question may be withheld and the witness will give the answer to the Commission, but the answer shall not be made public.

BY MR. BEAUREGARD:

Q. Ignoring the question about the margin of safety in relation to the cost price of the goods, you claim such margin is adequate and you are able, at the end of the year, to distribute this amount to your members?

A. When we fix the margin which we think sufficient to

carry us to the end of the year and allow for normal operations, it happens that we overestimate or underestimate the amount.

BY MR. NADEAU:

Q. Who decides whether the margin is adequate or not?

A. It is decided by the head of the department concerned, after discussion with myself, and then, if I deem it necessary, after consultation with the executive.

Q. The executive of the cooperative? A. Yes.

Q. And the subsidiaries consulted about this margin?

A. No.

Q. They are never consulted? A. They have, at the end of the year, the right to express their opinion, and during the year, when they find that something is too dear, they give us their reaction and we make an adjustment. We cannot very well consult our subsidiaries when it comes to fixing the margin to be charged for the distribution of a carload of binder twine.

Q. But you can consult with your subsidiaries for the purpose of fixing what percentage of margin you will put on a such-and-such product? A. It would be risky on account of the variations in the purchase price.

Q. Do you include in that margin a provision for reserves? A. We try to set a figure, a margin sufficient to cover costs, and also to meet general expenses.

Q. Reserves? A. No, we do not set our margin in view of a provision for reserves.

Q. Do you make provision for a reserve for depreciation, bad debts? A. Absolutely.

Q. Do you make provision for a general reserve?

A. Yes, we make provision for a general reserve.

Q. How do you provide for it? A. It is taken out of the amount left from our operations, both out of the sale

of farm products and from the sale of occupational utility goods. At the year end, there is a certain amount left, and the board of directors decides to allot so much for this, so much for that, and so much for reserves.

Q. With regard to the provision for reserves, are your subsidiaries consulted?

A. Local associations are consulted when they come to the annual meeting; they have the right to approve or reject the balance sheet, but they are not consulted in any specific way, such as being asked: "Are you agreeable to our making a provision of so much for reserves?" What happens, is that the general meeting approves the need for reserves, and they make such provisions themselves in their own business; and I must say that when there is enough, we are being asked to build a plant for the manufacture of butter or cheese containers.

BY THE CHAIRMAN:

Q. Are there any protests against the reserve at the general meeting? A. Never.

BY MR. NADEAU:

Q. Has each association, each subsidiary, an individual credit in your books for its share in the reserve, either for refunds or for its active share?

A. When the associations, as happened last year, decide to lend us part of their refunds on which we pay interest, the amount is credited to each association.

Q. I mean reserves. A. The general reserve is not allotted to any association in particular.

Q. So that if, at any time, you had to dispose of that reserve, how would you make the distribution among your subsidiaries? A. We would try to establish -- I am merely expressing an opinion because the board of directors

has never considered the possibility of going out of business -- we would try to establish that distribution according to the number of refunds or rebates already allotted to our associations. To my mind, and speaking as a cooperative man, I believe is the best basis.

Q. Based on quality and quantity? A. Yes; now, we still have the question of non-members to discuss.

BY MR. BROSSARD:

Q. Has a part of your assets been acquired with reserves or otherwise than with paid-up capital? A. Yes.

Q. Part of your capital assets, for instance? A. Yes.

Q. Is it a major part of your assets which has thus been acquired with reserves rather than with paid-up capital?

BY MR. BEAUREGARD:

Q. The question is whether your capital assets were acquired otherwise than with capital? A. I will explain the procedure. When we built that slaughterhouse at Princeville, we paid for it out of our own resources, and our reserves are part of our resources.

BY MR. BROSSARD:

Q. In the case of the Quebec warehouse, is it the same thing? A. Honestly, it has been there for such a long time that I could not tell you what happened then.

Q. I understand that it will be possible to examine Mr. Martin? A. A question like the previous one ... You are asking something that happened twenty-three years ago.

Q. On page 6 of your brief, you state: "Is it in the public interest that bona fide cooperatives be called upon to pay income tax; in the affirmative what tax?" What is a bona fide cooperative?

A. It is a cooperative which respects the essential principles in matters of administration, interest payable

on the capital, distribution of profits?

BY MR. NADEAU:

Q. You are not afraid to use the word "Profits"?

A. Or of over-payments.

BY MR. BERCESARD:

Q. Is there a difference between overpayments and profits?

A. We consider the cooperative association the prolongation of the occupational activity of the farmer, and as agent of the farmer, what is collected on his product, if there is anything left at the end of the year, it is given back to the farmer because, really, it was over-collected on his product; on the other hand, if I were the owner of the concern, I would keep the said amount and it would constitute my profits. It is the difference I make.

Q. Now, when you mention overpayment, do you mean only overpayment of the members of the cooperative as whole, or the overpayment of each member individually?

A. I do not understand.

Q. When you speak of overpayment for the Cooperative itself, do you refer to the amount representing the difference between the cost price and the sale price for the operations of the cooperative during the year, or the overpayment concerning each one?

A. In a society, the overpayment at the end of one year is the overpayment on the whole. Every member is enrolled and his operations are entered in a book. It is easy to give him back what he overpaid; that belongs to him. Is that what you want?

Q. Yes, that is the object of my question, but earlier this morning you stated that as far as products classified A, B, or C, you, the Federee, were not able to identify the merchandise sent by each of the members of the local

cooperative? A. As far as butter and cheese are concerned,

and I wonder how it would be possible; but in the case of other products, a distinction is made.

Q. But not in every case? A. Whenever it can be done.

Q. For some products, it is not possible? A. It is not done for cheese and butter.

Q. Finally at the end of the year, are there some members of the cooperative who receive more, in the distribution of the overpayment than they were actually entitled to in respect of the quality of the products they caused to be sold by the cooperative?

A. Every member gets what he is entitled to for the quality and the volume of his products, though I cannot establish, at Montreal, the quality and the volume of the cream sent by Mr. X. of St. Etienne to the creamery, the latter shipping the box of butter to Montreal. That is done at the local syndicate.

Q. Is it possible for the local syndicate to do it where the member resides when the grading is done in Montreal, at your place? A. Yes, because our remittance is individualized; when it is possible for the syndicate to identify its products or the shipments can be individualized, we succeed in identifying the product. However that is what we are endeavouring to do. Let us take the case of live stock; every animal is stamped. The shipment of a single cooperative, hogs, cattle are stamped with the name of the individual shipper.

The Commission adjourned until 2.15 p.m.

AFTERNOON SESSION

The Commission resumed at 2.15 p.m.

HENRI BOIS resumes his evidence

BY MR. BROSSARD:

Q. With regard to the reserves, I would need some explanations. I think you stated this morning that it was the Board of directors of the Cooperative Federee which set, from year to year, the amount of the reserves to be established. Nevertheless, such decision of the board of directors is submitted afterwards for the approval of the members at the annual meeting?

A. Yes.

Q. Could you tell, however, on what principles the decision of the board is based to set those reserves?

A. Such reserves are established for the protection of the agricultural cooperative associations and of all the cooperative associations, of their general operations which among us are centralized, against all risks relating to that kind of business. Also, according to our financial means, to fulfill the wish of the associations to improve their activities or their cooperative endeavour by establishing better or new undertakings, not necessarily new, but better, for our financial means did not allow us to set up new undertakings. It is due to the war, that we were almost forced to open the abattoir at Princeville and the box factory at Victoriaville, for there is yet much to be done to make odd activities of the cooperative more effective.

Q. More effective in which sense? A. In order to give a better service at a lesser cost, and to the benefit of the members.

Q. With the intention, I suppose, of extending your activities? A. Yes, with regard to occupational activities, and in every sphere where we consider it necessary to introduce

our activities.

Q. And to enroll new members.

A. To induce the farmers to establish cooperatives and see them coming to us freely; there is one point I wish to mention because you asked me what was prompting us to establish reserves. When a group of non-affiliated cooperators need us, we never refuse them our assistance in the technical and commercial fields, and often we put our services at their disposal. We even went further. We have preferred to help some farmer groups rather than make higher profits, for instance, by selling properties to individuals.

Q. But in fact, for the last few years, were the reserves you have established for the last ten years, used exclusively for the purpose or were they used for other purposes? Were they not used, for instance, for the expansion of the operations of the Cooperative Federee?

A. When a reserve is established it is used necessarily, automatically. But there is something special, due to what I would call the limitations of our working capital, we say, for instance; "Lend us your money"; there was, however, in December, close to \$300,000 shown in our balance sheet, deposited by individuals so that we may operate.

Q. They are loans made to the cooperative by some of its members? A. Yes, if you wish, and also perhaps by non-members.

THE CHAIRMAN:

Q. You have others also, other loans? A. Yes.

Q. I notice them in your balance sheet.

A. The bank, the Cooperative Wholesale Society; we borrow from the bank during our usual transactions.

Q. And even in England? A. Yes, the Cooperative Wholesale Society, in England, lent us some money.

BY MR. BROSSARD:

Q. Mr. Martin will be able to give us additional information concerning the balance sheet? A. Yes.

Q. Have you a copy of the brief? A. Yes.

Q. On pages 1 and 2 of the said brief you quote excerpts of the Stevens Commission report? A. Yes.

Q. Have you read those quotations? A. Yes, in the report.

Q. Are you aware of the existing economic conditions when the Stevens inquiry took place, which probably prompted the said inquiry and which were still existing when the final report was made? A. The agricultural economic conditions?

Q. The economic conditions generally?

A. With regard to economic conditions in general, I know only what is known to those who are interested in the business in general; however, in the matter of agricultural conditions, I may say that I am well aware of the conditions existing in 1935.

Q. You know that at that time we were in the midst of an economic depression? A. I know we were in the midst of a depression and that the farmer was unable to repair his buildings with the proceeds of his farm, and that the average gross revenue of the average farmer of the province did not exceed six hundred dollars a year.

Q. In your opinion the business, and inferentially the primary producer bore the brunt of the depression?

A. Yes.

BY MR. NADEAU:

Q. And you are a farmer?

BY MR. BROSSARD:

Q. The manufacturers, middlemen and distributors were equally affected by the economic situation? A. I would not like to bring in those who are not here, but I may state, and that has been published, about an inquiry conducted in 1932

concerning milk distribution on the Montreal market.

Q. In the midst of the depression?

A. Yes, I was then chairman of the Dairy Industry Commission. We found out that the market was holding firm and even, in some cases, had been extended. The situation of the milk distributor was such that any man, agronomist or not could realize some profit.

Q. To your knowledge, is it not true that the situation existing at that time, the economic conditions of 1935, have changed radically since then, may be due to the war, but that as a matter of fact they have changed?

A. The conditions have changed, it is evident.

Q. Is it to your knowledge that certain recommendations made in the report concerning the duty of the government to the effect that a special attention was to be given to the interests of the consumer were followed by the enactment of certain laws and the application of same? I refer in particular to the control of weights and measures, the control of the quality of the products, the control of the weight of the products, in short to all that may interest and protect the consumer?

A. I know that something has been done; I would draw your attention to the fact that I know the agricultural cooperatives better than I know the consumer cooperatives; that I am rather a countryman than a city dweller; that I am more aware of what is going on in the country than in the city. I know efforts have been made to remedy the situation revealed by the Stevens Inquiry.

BY MR. NADEAU:

Q. How many affiliated societies did the Cooperative Federee have in 1935? A. Ninety-five, Mr. Commissioner.

Q. You have about 400 now? A. Yes, not quite 400, I

think.

Q. What are the main types of agricultural cooperative associations among your affiliated societies?

A. There is the butter and cheese cooperative to which is attached in most cases a warehouse where the farmers store the products they will need later on during the various periods of the crop year; in the spring, the fertilizer, the seeds; later on the feed, etc.

The butter cooperative which at the same time is a sale and supply association is the most popular type. Some associations limit their activities to the making of butter and cheese and do not sell anything else.

Normally, the farmer endeavours to establish an association which will answer all the needs of his farm and, in the province of Quebec, due to the system of farming necessitated by the size of the farms, the general situation of labour, market and transportation, it is evident that we have farms on which production is diversified; for instance, a farmer will have one or two acres of potatoes, a few acres of oats and hay; he will raise fifteen, twenty, forty hogs a year; he will have a herd of thirty, forty cows. He has a variety of products for sale, which he cannot sell locally. A cooperative is a necessity and for that reason, apart from the butter cooperative, he will buy a store, a warehouse where his products will be graded, bagged.

Q. Are the consumer cooperatives among your members?

A. Few rural consumer associations buying articles for farm operations and which also have other activities became affiliated, but they are subject to the conditions applying to the ordinary agricultural cooperatives and they are satisfied.

Q. Have you any urban cooperatives of distribution?

A. No.

Q. Have you any cooperatives for distribution of farm implements? A. No. A few associations may have attempted to distribute farm implements, but we have no cooperatives of distribution.

Q. Tobacco cooperative? A. Yes, there is an association specializing in that branch; there are even two; there is the association at St. Jacques, for pipe tobacco and cigar tobacco. That association has reviewed the cigar tobacco industry which was down, and even without the increase of prices due to the war, the association has improved the condition of its members.

Q. Apart from the foregoing, have you any agreement with other Canadian or foreign cooperatives for your supplies, your purchases and your sales?

A. Before the war, we had agreements with the Cooperative Wholesale Society, the main English consumer cooperative, for the sale of our cheese on the British market. We have also agreements, contracts mostly with other cooperatives which, at a certain time, in other provinces, may have to supply us with a certain product. However, these agreements, contracts, are not very binding.

Q. Have you any agreements with American Cooperatives?

A. No.

Q. Are you interested in export trade? A. We have sold cheese before the war.

Q. Now? A. Now, it is the Dairy Board, the special product board.

Q. Would you refer to your brief, page 8, where it is said that in general, the primary role of the cooperative is educational and also social. It refers first to its

educational role and it is said: "Its primary objective is education of the primary producer as to the use of his farm, the quality of his products, their grading, presentation and distribution."

A. Yes.

Q. And on page 9, it is said: "Whether it is buying or selling, the whole purpose of the Cooperative is to make the operation profitable to its patron."

A. Yes.

Q. Do you not think that there is a certain contradiction? A. No.

Q. In the first instance, you mention the purpose of the Cooperative, and in the other case you give as its object its educational and social role.

A. On page 9, when we say that "the whole purpose of the Cooperative is to make the operation profitable to its patron", I think we tend to establish that the Cooperative is more concerned and above all in helping those who come to it than in collecting more profits or overpayments. For instance, every day, at our St. Paul Street office, farmers, cooperative agents or officials, even city residents seek our advice on this or that -- agricultural matters, always -- we have at our service people quite conversant with agricultural matters and their advice is worth something, and we tell those inquirers what we think the most profitable.

A cooperative manager comes to us and offers an order of a certain fertilizer formula that would sell, say, for \$36 and for which the profits would be larger, and another, selling for \$28, if we are of the opinion that the first does not suit that man, we will tell him: "Do not buy that formula, buy the second rather".

Q. That service rendered to your patron belongs to the

economic order. When you say that the operation is profitable to the patrons, you mean that it is profitable in the economic sense.

A. Yes, so that it may be more profitable to him.

Q. You mention as object of the Cooperative certain economic advantages which would be profitable to the patrons.

A. We say this: we consider the operation not according to the profit we will realize but according to the service the patron will receive.

Q. The economic profit the individual derives?

A. According to the advantage he will derive.

Q. Between the educational and social role of the Cooperative and the economic role or economic service the Cooperative will give, which one do you consider of prime importance or more important.

A. My opinion is that the object of the Cooperative is to be of the greatest usefulness to its patrons; to train them in the technical way, social way, to help them also to realize that they must rely on an association to achieve what they cannot achieve alone, and with more advantages.

"All our activities are based on that, and year in and year out, I may add that between \$30,000 and \$35,000 are paid out in salaries to our employees who supply such information and if the Cooperative was my property I would be more stingy in that respect.

BY MR. NADEAU:

Q. Have you a large staff assigned to that work?

A. All our heads of branches give that information; we have also six or seven propagandists, all technicians in agricultural matters who meet the different groups, not so much to bring them to us, to affiliate them, but to help them when they are there; we have done so very often and we are still doing it.

Q. Are there not in the province of Quebec, agricultural associations whose object is exactly the same, whose purpose is the education of the agricultural population?

A. There are also agricultural colleges.

Q. Is there not a large number of such associations?

A. Yes. I have been doing agricultural propaganda for some twenty years. Tell them "this or that should be done in such a way", even if your teaching is exact, precise, you will never have the same result that if you have a group of men working together in a definite enterprise and in which new technical information has been introduced; they will swallow it unknowingly.

Q. It is in their economic interest and at the same time you protect their social interests?

A. They are inhabitants of the earth and like anybody else they yearn for a reasonable standard of living. However such was not the case for the farmer between 1930 and 1939. I cannot do otherwise but take advantage of that need in their midst to make them better farmers and better citizens.

Q. And I imagine that it is for that purpose that in 1943 you have applied a sum of \$30,000 to the pension and education fund? A. For that purpose and another one also. That is another matter. We have established a reserve of \$30,000 to cover unforeseen expenses of propaganda and educational movements; the main purpose was to get the necessary money enabling us to derive the greatest possible advantage from the social and economic security laws for the 535 employees of the Cooperative.

Q. May I ask you if the said sum of \$30,000 put in the reserve in 1943 was used for that purpose in 1944?

A. No.

Q. It is still in reserve? A. We are awaiting the

application of the law.

Q. Now, according to your balance sheet of 1943, it is the first time that such a reserve was established?

A. Yes, it is the first opportunity the farmers had to help those who had worked for them for fifteen, twenty years.

BY MR. BROSSARD:

Q. Coming back to my question, would you tell us if, in your opinion, the main object of the Cooperative is an educational and social role, or if it is an economic role?

A. It is an educational and social role, and incidentally because we live on the earth, economic teachings are also given.

THE CHAIRMAN: Q. Where do you teach the principles of cooperation? Have you any schools?

A. There are agricultural schools where cooperation is part of the curriculum; there is an agricultural school affiliated with the University of Quebec, where cooperation is taught; in Montreal also, there is the Conseil Supérieur de Coopération composed of representatives of the different groups; there are the agronomists in general in the province who teach the cooperation; there are also our own activities. We attend meetings and we give explanations.

Q. Do you use reserves for that purpose? A. No. Between \$30,000 and \$35,000 are spent annually for educational purposes, and the said reserve of \$30,000 was established mainly for the purpose of creating a fund that would be used when the government will ask us to take part in social security enterprises for our employees.

BY MR. NADEAU:

Q. Does the Department of Agriculture have a service to that effect? A. Yes. I appreciate the service of the Department of Agriculture or the cooperative propaganda service.

Q. Do you cooperate? A. Yes, absolutely, we cooperate with those people and if I can appreciate their work, I am altogether satisfied with it.

BY THE CHAIRMAN:

Q. Did the province help you in another way, in a more concrete way maybe? A. The province paid propaganda expenses for some years, up to 1936 or 1937; afterwards the province did not give anything. Actually we do not receive anything.

BY MR. BROSSARD:

Q. When you say that the province has paid, do you mean to your cooperative or in a general way? A. The province has reimbursed costs of propaganda or salaries which we would not have ...

BY MR. BEAUREGARD:

Q. When you did not have the means to do it? A. Yes.

THE CHAIRMAN:

Q. Did the provincial government guarantee your loans? A. The government guaranteed the loan from the Cooperative Wholesale Society.

Q. For \$400,000? A. Yes.

BY MR. NADEAU:

Q. Did the government previously grant such subsidies to the Cooperative? A. The government reimbursed the Cooperative expenses incurred by the latter at the request of the government since 1930.

Q. Involving large amounts? A. Yes, there is a rather large amount, because when the revision of the act was made in 1930, the government admitted that its intrusion in the business of the Cooperative from 1922 to 1930 had not been very advantageous to the cooperative; the government admitted its responsibility for the losses incurred and pledged itself

to pay them.

Q. What amount was paid? A. I could not give you the exact amount; I think that Mr. Martin has it, \$480,000.

BY MR. BROSSARD:

Q. Would it not amount to nearly a million? A. I do not think so, if you add everything.

Q. Was there not an act passed in 1939 referring to an amount, either guaranteed or advanced to the Cooperative, of approximately one million dollars?

A. The act which was however abrogated the following year. That was in the preamble; I think it was said generally--

Q. Would the amount that the Cooperative would have received or otherwise be about a million dollars?

A. To total up, I would have to add the amount paid for propaganda purposes, and add that to the amount of damages, if you want to consider that.

Q. Again on page 9 of your brief, about the end of the page, you state: "The third reason derives from the fact that the net income of the Cooperative is neither a profit nor an income within the meaning of the law." Is the word "Cooperative" that you use there, intended in a general sense? A. Yes.

Q. You are not referring particularly to the Cooperative Federee? A. No.

Q. What act are you referring to in making this statement?

A. To the Income Tax Act.

Q. Could you, again for my own information, tell us what you mean by a profit, by an income, under the Income Tax Act? A. I told you this morning the distinction that I made between a profit and an overpayment. I consider that the Association, if you are asking for an opinion, now, it is an opinion in respect of legal terms.

THE CHAIRMAN (Text): Mr. Brossard, I would like to tell you that in Ottawa, that is known as the sixty-four dollar question.

MR. BROSSARD: Well, perhaps Mr. Bois will go into the sixty-four dollars.

WITNESS (translation): What is left to the Association could be compared with the amount which would be returned by a man to whom I would have given \$10 to go and buy me a piece of machinery at the village, which piece would have cost him \$7, and who would return to me \$3 with the piece of machinery.

BY MR. NADEAU:

Q. If the man to whom you gave \$10 to buy a piece of machinery establishes a factory and makes the machinery, would you not consider that as a profit? Do you think the whole transaction would not result in a profit, owing to the fact that you use both capital and labour, and that by combining the two, an implement is evolved.

A. In order to make a profit for himself, he would be obliged to sell to me at a higher price than he paid.

Q. Is there not a profit for him?

A. If he is the owner of the business and if, after his general expenses, his direct expenses, are paid, something is left to him in addition to the salary he gives himself as a director, I would call that a profit for him.

BY MR. BROSSARD:

Q. From what source are taken the various figures that you have quoted in your brief that is those you are giving on page 3 where it is stated: "It is estimated in general that in 1942, 620,000 Canadian cooperators did \$257,000,000 of business and collected a net revenue of \$25,000,000"?

A. That was taken from the Year Book.

MR. BEAUREGARD (text): Inasmuch as this question is

concerned, I should take my responsibility. I have taken the figures on page 3 from a booklet prepared by a group asking for the taxation of cooperatives. That is a valuation of all the volume of sales of \$257,000,000 for all cooperatives during one year in Canada, with a profit or benefit of \$25,000,000 out of the sales of \$257,000,000.

MR. BROSSARD: For the year 1942?

MR. BEAUREGARD: I think it is, yes.

BY MR. BROSSARD (translation):

Q. And the amount of \$40 referred to, is an average?

A. It is a division.

Q. It is an average likely to vary substantially on the more or less side, according to the individuals? A. Yes.

Q. On page 12, you state in paragraph 4, that: "The cooperative adds to that stabilizing element, in that being a simple instrument of service it does not create any artificial demand. It contributes to maintain what in business language is known as an orderly market." What do you mean by artificial creation of demand?

A. High-pressure salesmanship.

Q. Would you not agree however that the cooperative is interested in an increase of its demand, nevertheless?

A. As far as it seems normal and sound, we will support it, but as soon as production appears to exceed the normal demand, we try to check the supply of products.

Q. How can you, at the present time, check supply?

A. By telling people what is up, and calling upon their business sense. The particular feature in farming is that, first, the debit side of a farm is something that is spread over many years and does not stop immediately. It takes a few months before you have a milch cow. During all that time, well, the milk is coming, and it is impossible to stop it.

Q. Does it not follow from your statement that the more the cooperative movement will spread and expand the more stability there will be in supply and demand, according to you? A. Yes.

Q. To what degree do you think it would be advantageous for the population of the province and of Canada that the cooperative movement develop? A. It is very big problem.

THE CHAIRMAN: That is the question which was asked Mr. Good, in Ottawa, the other day. He promised us an answer later on.

WITNESS: I believe it would also be wiser for me to think it over a long time.

BY MR. BROSSARD:

Q. On page 14, you are referring to the cooperative syndicates, paragraph 5: "They apply the following cooperative principles: (a) One vote per member." Is the same principle applied to the Cooperative Federee? A. Yes, and it works as follows: there is here a particular feature which must be known. Our local associations, when they start, choose between two methods of subscription: \$50 or \$100. The subscription is the same for all members; it is the same amount. Now, the law requires them to pay ten per cent of their paid up common stock to the central organization. Our shares are of \$25. Suppose a \$50 share in the local association and a \$25 share in our organization; it takes five members to have a vote and, finally, the number of votes allowed to a local association is in the ratio of its number of members. There is still the matter of the \$100 association and the \$50 ones. There are very few \$100 associations.

"Our position is as follows, and there are minutes: many years ago, by a resolution passed at our annual meeting,

asking the government to change that mode of voting and to allow one vote per member of each association affiliated with us.

In the local association, there is no distinction; it is one man, one vote; and in our organization, that is represented by the ownership of a certain number of shares, but that number of shares is in relation to the number of members of the association.

In the second stage of the associations, there is frequently an attempt to adjust the association element and the business element, so far as the control of the central organization is concerned. That is done more particularly in England.

BY MR. NADEAU:

Q. Is there a vote by proxy? A. No.

BY MR. BROSSARD:

Q. In the same paragraph, on page 14, on the subject of cooperative principles, you refer to the education of the cooperators. I would like to know exactly what the cooperative does with respect to the education of the cooperators what are the real purposes of this education?

A. The answer is given in the small pamphlets already filed.

Q. In schedule 4? A. Yes. A list of our educational activities is given there.

Q. But no figures, no amounts are given; you do not state what proportion of your revenue is applied to these ends. A. Undoubtedly, we spend money; as I said a moment ago, we spend between \$30,000 and \$35,000 a year. But that is not all; one must take into account the time, and therefore salaries, devoted by the officers of the societies, the employees, the heads of departments, to discussion with

people to induce them to make a transaction, a purchase of goods for occupational use of a higher standard than what they had in mind when they first came in.

Q. Would you say there is a difference between the ends to which this sum of \$30,000 or \$35,000, spent by you, is appropriated, and the ends which private enterprises or corporations have in mind when establishing a research fund, enabling experts to perform research work or when setting aside certain sums for publicity purposes?

A. With respect to research work, if the result of the research work is made available to the public, if the public benefits by it, then it seems to me, they are inspired by just about the same spirit. If the research work is intended to benefit the enterprise only, then, in such a case, it would not amount to the same thing.

As for publicity, it is done to promote sales. We, on the other hand, carry on publicity to enable the consuming farmer to buy and sell more judiciously, to do better work at home.

Q. To sell more judiciously, is to sell more?

A. You would have to examine as many cases as there are farmers, to find out what each will be able to do. You may grow potatoes at a cost price of 25 or 50 cents ...

Q. It is not necessary that he should sell more, but at a better price. A. No, not necessarily more, but so that, when he comes to sell, he will offer his produce in such a way, of such a quality, that he will find a buyer at the market price, but at the highest market price at that moment.

Q. On page 15, paragraph 9, you state: "Affiliation obliges the local cooperative to do its buying and selling through the Quebec Federated Cooperative". In the light of what has been said this morning, I think that you should add "exclusively".

A. There is the letter, and there is the spirit. If you take the contract as it is, you may come to the conclusion that it amounts to an obligation, or even, that a penalty is provided. What happens in practice? We learned that it is useless forcing people to be cooperators, and the contract is there much more for the purpose of reminding them of their obligations than as an instrument of punishment.

Q. In other words, it is not always respected and you exercise a certain tolerance with respect to the violation of the individual contract.

THE CHAIRMAN (text): There is an English expression for that, Mr. Brossard -- "or else".

BY MR. NADEAU (translation):

Q. This box factory you were referring to is located at Victoriaville? A. Yes.

Q. Does that factory represent a large volume of business for the "Federee"? A. We sold last year, if I remember right, 400,000 boxes. This would figure out at ... I apologize for taking up time. The total value of these boxes amounts to \$169,240.48.

Q. Do you sell to your members, exclusively?

A. We decided to embark upon this enterprise at the solicitation of certain officials of the Ottawa government who feared a shortage of boxes due to the increase in the production of cheese and butter, and when it was decided, -- this is entered in the minutes of our 1942 annual meeting -- it was well understood that it was to be exclusively a service enterprise and, ever since, it has hardly been able to make ends meet, year after year. We wanted to place it at the disposal of cooperators in need of good boxes at a reasonable price.

Q. Do you sell mainly to your members? A. We have sold mainly to our members and, at the same time, we were being

told that there was a shortage of boxes in the province of Ontario. We sold fifty-five carloads, I think, in the province of Ontario.

Q. Do you keep separate accounts for your clients?

A. In the case of a service enterprise such as this, we deal with everybody on the same footing.

Q. Members or non-members?

A. Yes. The question has not arisen for, as I just stated, we just make both ends meet.

Q. Have you other services of the same type, having to do with manufacturing, the conversion of raw materials into a finished product? A. Yes, here, in Montreal, we prepare mixtures of fodder plants, part of which come from these local associations, these cooperatives, to make mixtures A, B, C; on St. Ambroise Street, in Montreal, we also prepare feed stuffs intended for live stock, such as hogs, cows, and we, there also, grind grain, incorporating in the feeds the ingredients necessary to make a balanced feed.

Q. Do you sell to the trade? A. Yes, we sell to the trade in the ratio or - I do not know if it is ten per cent; they are non-members. There are some associations which are not members and that makes a difference.

Q. Have you any subsidiaries besides the Canadian Live Stock Association and the Dominion Elevator? A. No.

Q. Are you interested in any other limited company or cooperative? Do you hold stock, or shares? A. No.

Q. I see on page 3 of your statement that you give the volume of business of cooperatives in Canada for the year 1942. Do you know what is the increase in 1943 over 1942?

A. Yes, in the province.

Q. If I have taken, correct me if I am, for 1943 the figure is 2,000.

A. It is quite possible.

Q. Have you any business relations with the Caisses Populaires in the province? A. Some local associations do business with them and we would like to.

Q. Do you, as central organization, or do the subsidiaries, deal with ritual insurance companies?

A. We ourselves have not, so far. As to the subsidiaries, I do not know.

Q. Have you any competitors, in the same kind of business as the cooperative federee, in Montreal; have you any competitors here? A. People who buy cattle and feed?

Q. In the trade? A. Any amount.

Q. Does the competition from these enterprises affect your business? A. We have never complained.

THE CHAIRMAN: Have other people complained?

THE WITNESS: Yes.

BY MR. NADEAU:

Q. What are they complaining of? A. In 1932 or 1933, when we started making feed, we printed what it was made of, the ingredients it contained, the composition, and, at that time, it can be stated without fear of contradiction, we brought about a decrease of five, twelve and fourteen dollars in the price per ton.

As regards the chemical fertilizer industry, at the time of the Stevens investigation, people in other provinces make comparisons and found that fertilizers were cheaper in Quebec, It was proved that it was due to the activities of the Cooperative Federee.

When, in 1942 or 1943, some buyers obtained from the prices and trade board a wider margin of 1/16 of one cent for the handling of cheese, we raised no objection, but, at the end of the year we added the sixteenth of one cent to the usual rebate.

Q. Is that what they complain of; that you have brought about a reduction in price?

A. I do not know what is making them touchy.

Q. You say that your commercial competitors are making complaints? A. I did not say they were making complaints; I said that we have never complained. It is the order in council which leads us to believe that somebody made a complaint against us.

Q. Have you any certainty in that respect? A. Moral.

Q. Moral or ... A. Definite.

Q. What price policy do you follow in selling and buying, in fixing prices? A. You mean in dealing with farmers?

Q. Yes. A. We try to sell at current prices as much as possible, in so far as we do not feel that the current price is too high. That is what happened in the case of binder twine: a few years ago, when it sold for 16 cents per pound, we reduced it because we thought it too high. Nowadays, as much as possible, we stick to the prices, in order not to provoke unnecessary hardships and too much ill-feeling.

Q. Do you require cash settlements? A. From our subsidiaries, thirty days. Now, you know how it is in farming: you know that you start in the spring and have to wait until September or later for results, and when an association seems to be doing well and its operations are normal and sound, we wait.

"When the association is new and has to face the difficulties of initial expenses which are always heavy, we may help it, but our general policy is this: to try and make our people pay cash. In farming it is probably more difficult than elsewhere on account of the seasonal character of the production.

Q. Do you sometimes extend credit to local associations?

A. Yes.

Q. Do these credits reach a big amount from year to year?

A. Altogether, for 300 associations, it represents a fairly big amount; however I would say that the average, at a guess, is not more than six to seven thousand dollars. Some associations exceed that amount; some pay cash.

Q. I see on the liabilities side of the balance sheet a loan of \$486,666.67 from the Cooperative Wholesale Society.

A. Yes.

Q. Would you kindly explain briefly the reasons for that loan? A. It was in 1934; the Association was then at the bottom of the depression and so was farming; funds were needed and, under an act passed in 1930, if I remember right, in Quebec, the government had been authorized to borrow up to six thousand or seven thousand dollars, I do not remember exactly. Then, at that time, they purchased sterling in England from the cooperative wholesale society and the Clydesdale bank. The latter has been paid in full since and the cooperative wholesale society in part. We have this amount from it; that is all.

Q. Do you export? A. We used to sell before the war several thousand cases of cheese to the cooperative wholesale society. Since the war, the sales have not been handled by us.

Q. I see there are two classes of shares, preferred and common. Is there a limit to the number of shares a person may hold, as regards preferred shares? A. No.

Q. There is no limit? A. No, the stock is non-voting.

Q. But there is no limit to the amount of preferred shares a person may hold? A. No.

Q. Are any common shares held by individuals? A. Yes, there are still a few common stockholders from the 1922 to

1930 period, who refused to convert their common shares into preferred and they number twelve hundred.

Q. Do you pay interest? A. We do not pay a cent on capital nor do nearly all the local associations.

Q. Is there a limit to the number of shares which a local association may hold? A. Yes, it is limited to ten per cent of its paid-up capital, subject to increase. In order to increase its common stock, it must increase its membership.

Q. From the nature of your capital set-up, would it be correct to say that it is your local associations which control your central organization?

A. Absolutely; that is mathematically proved.

THE CHAIRMAN: I can see that your investments include some dominion bonds. What about the interest on these, how do you handle it? Is it a profit?

THE WITNESS: It is a profit; I cannot say that it is an overcharge. I must say that this is in 1943.

BY THE CHAIRMAN:

Q. There are some mortgages? A. Yes, mortgage loans.

Q. Apparently you get the interest? A. Yes, these mortgages were taken following advances to different associations and they pay interest on them.

Q. You receive interest payments to the amount of \$146,000 a year. A. That is right.

Q. What do you do with that interest money?

A. It is put into general reserves, I would say; we do not identify it further.

BY MR. NADEAU:

Q. Do you think that in order to maintain -- this is merely an opinion -- the efficiency of the cooperative system, one should grant the cooperative system privileges of any kind? A. No.

Q. Privilege of tax exemption? A. In that case you will have to consider whether we make any profit.

Q. Whether you make any profits? A. You will have to consider whether, for the good of farming, the use of profits from non-members, for instance, should be taxed. There is a certain question of fairness in that in my opinion, I would say. You are asking for an opinion? The association belongs to the farming associations which, in turn, are the property of farmers and the extension of their activities.

Local associations, left to themselves, are nothing, and the situation of the farmer would be worse because competition would be so much more dangerous on account of being established on a lower plane. Two farmers may compete with each other, but when it comes to two associations of one hundred members each and competition results in price reductions, things are getting more serious. It is the same for supplies.

A local association is hardly able, unless it is of considerable size, to get all the equipment needed for processing raw materials into useful goods. Take feed for instance. Somebody has to make it, and local associations thought that they would protect themselves in the provincial field by creating out of themselves another association which would play the same part as the local association in its own field; but in actual fact all this is affected by conditions and investments, competition, etc., enter into it.

Q. I understand that you are exempt from provincial taxes, but do cooperatives pay municipal taxes?

A. There must be some municipalities which tax local associations, I am not sure.

Q. But you pay municipal taxes, as a general rule?

A. Yes.

BY MR. BEAUREGARD:

Q. With the Chairman's permission, I would like to ask the witness a question. It is also a matter of opinion in my case, Mr. Bois. Do you believe that in the cooperative system of which the Federee is the centre, it is possible not to tax the local association while taxing the Federee? So you think that the local cooperative would be affected by the tax imposed only on the Federee itself, if that tax were not imposed on the local association?

A. Yes, last year, we distributed - I am speaking from memory - some \$200,000 in refunds. If those refunds had not been paid out to our associations, the latter, in turn, would have been obliged to fend entirely for themselves and afterwards charge the farmers so much ... because they would have lacked the reduction which our activities produce in our operation costs.

"If you tax us, you tax the local association, and if the latter is taxed, it will give less to the farmer, and it is the farmer who will bear the whole brunt.

BY MR. NADEAU:

Q. Could the cooperatives be run at cost? A. It would be very risky you would discourage an initiative which has done a lot for our farmers and for the best among our farmers.

BY MR. BEAUREGARD:

Q. I am quoting your reply; you say: "which has done a lot for the farmers." Can you give some concrete examples in the province of Quebec, where these benefits have been particularly noticeable? A. As far as the production of seeds is concerned, I pointed out this morning that there was no organized seed production in the province until the cooperatives set to work, until we set to work. Each man grew seed, and there were countless different grades.

We have induced our cooperatives to select for the

production of seeds only varieties suitable to the bulk of Quebec farmers. It happens that the seeds coming from Quebec, due to certain conditions, the soil where they grow are superior to other seeds. It is one instance where due to the production of such seeds we have had a certain influence on the welfare of agriculture. It would be well to mention also the costs; binder twine, etc., etc.

Q. I refer to districts where the development of farming was outstanding due to the cooperatives?

A. There were localities which did not produce any potatoes; that type of farming was introduced by the cooperatives in the best suitable district. Why? Because each farmer could not produce enough to buy a sorter and to bag his product. They worked together, obtained warehouses, secured the necessary machinery, sorted locally the potatoes and learned to produce under the best possible conditions.

Q. To which districts do you refer? A. To the district of Frontenac, the district of the Laurentians, l'Annonciation.

Q. With reference to the raising of live stock, have you any typical examples?

A. We were never very much interested in the matter of selection of breed. With regard to the milk industry, through the butter and cheese factories, we have induced our members to produce a better product and to exercise a mutual restraint; because they are patrons of the cooperatives they do not want any one to bring in bad products that would spoil the whole affair; they are all interested.

Q. In your opinion, is the margin of twenty per cent allowed by the present act with regard to the share of trade of the cooperatives with non-cooperators, sufficient?

A. In many cases, as far as agricultural cooperatives are

concerned that margin is not enough and, if it were applied, it would close the doors of the cooperatives and losses would ensue.

BY THE CHAIRMAN:

Q. In the United States, such margin is higher?

A. I think there is a difference of five per cent. As far as we are concerned, it would create quite an administrative problem because we have to foresee the equipping of 34,000 farms with articles required. The demand for such articles is subject to weather conditions which are beyond our control. However, from year to year, we are progressing toward a rectification.

BY MR. NADEAU:

Q. Are you soliciting such operations with non-members?

A. Not at all.

Q. Could you put a stop to them? A. It would be rather difficult, for having been for many years the purveyors, for certain purchasers, of rationed articles and subject to regulations, we would be asked to carry on.

Q. Because you were the purveyors of certain articles when the regulations and control were put into force, and because the customer was forced to keep on buying from his usual purveyor, you should carry on? A. Yes.

BY THE CHAIRMAN:

Q. You would not recommend that the act be amended so that the margin of 20 per cent could be increased?

A. Yes, I would recommend such an amendment for there are certain types of cooperative activities which adapt themselves to that margin of 20 per cent others do not.

BY MR. NADEAU:

Q. In your dealings with the non-members, could you give the same advantages offered to the members?

A. We offer to the non-members liable to become affiliated

to withdraw half of their profits if they are willing to be affiliated to us, to the local associations. Certain associations have done what you said and the majority of the associations are ready to accept the non-members by crediting them with the share of profits which would have been theirs had they been members.

Q. Did public bodies resort to the good office of the Federee in their dealings with the general public?

A. Yes, very often we have been asked by the wartime prices and trade board to settle cases; the provincial government may ask us to take charge of such and such supply, and the cooperation that we preach is always expected.

BY THE CHAIRMAN:

Q. That you would serve the government, as a customer, just as well as you would do in the case of cooperatives?

A. Absolutely.

BY MR. NADEAU:

Q. I am requested by one of my colleagues to ask a question involving a matter of opinion. On many occasions it was stated before the commission that the cooperatives were expanding considerably on account of their tax-free reserves. Would you mind giving us your opinion in that respect? A. In the province of Quebec, cooperative education has been going on vigorously and systematically for the last fifteen years. In the first years, from 1930 to 1935-36, people were so poor that even if they wished to, they were unable to establish a cooperative association and to start activities; very few were trained and even in 1937, the depression still existed. It is at that time, if I remember well, that the largest number of associations, 88, were established in Quebec. Now, conditions have improved and people established associations because it was their

long-felt desire and it is not so much on account of the reserves that associations had that the cooperatives have multiplied themselves; I do not think that could be said. It is the desire and the need of the people and of the farmers that have prompted them to establish associations and they established same when they had the opportunity.

BY MR. BEAUREGARD:

Q. The development is not due to the fact that there were reserves? A. No, that is not my opinion.

BY MR. BROSSARD:

Q. Do you think that the income tax that would affect only the reserves of the Cooperative Federee would be liable to prejudice the development of the affiliated associations?

A. I tried to explain that our reserves were a necessity, they belong to our association. If we were taxed, there would be only one course to follow, not to have any reserve and then, when the time would come for improvement, we would have to advise as to the ways and means of finding the necessary funds.

ROMEO MARTIN

Secretary of the Cooperative Federee, 130
St. Paul Street West, Montreal, being duly
sworn on the Holy Evangelists, deposes:

BY MR. BROSSARD:

Q. I would ask you to be kind enough to table with the secretary of the commission ten copies of the balance sheet and operating statement for the seven years proceeding 1943. I do so at the request of the Commissioners, and also a copy of the balance sheet for 1944. A. I think it would be possible to supply you with such copies without reasonable delay.

Q. I would like to get only certain explanations

concerning figures you have submitted for 1943. I notice in your operating account for 1943, under the heading "Appropriations", a reserve, an inventory of grain and feed, \$65,000.

A. Yes.

Q. However, in the balance sheet, under liabilities I do not see such reserve, unless it is included somewhere else?

A. It is included in the amount of \$101,676.40 mentioned for contingent reserves.

Q. In the said amount of \$101,676.40, the difference shows the kind of reserve?

A. They are reserves appearing in the balance sheet of the previous year and which almost totally were for similar purposes.

Q. These grain and feed inventories would also be reserves? A. Reserve for various contingencies.

Q. For what purposes are such reserves constituted?

A. If you examine the balance sheet, you will notice that there is, for goods inventory, an amount of \$1,840,000. For the previous year, if you have the other balance sheet with you -- I will be able to supply you with a copy for your information -- the amount for goods inventories, totalled \$931,000. The increase or appropriation of \$65,000 is explained by the difference between the two amounts.

Q. I do not quite understand.

A. On 31st December, 1942, there was a goods inventory of \$931,000. On 31st December, 1943, there was a good inventory of \$1,842,000.

Q. Then you conclude that your reserve of \$101,676.40 for various contingencies gives the explanation.

A. Perfectly.

Q. You have a difference of \$800,000?

A. It is the difference on inventory, and our reserve for grain and feed inventory is only of \$101,676.40.

Q. I do not quite understand.

A. I would ask you to make your question more specific

Q. My question is this: for what purpose was the reserve on grain and feed inventory amounting to \$65,000, in 1943, and to the total amount of \$101,676.40 on the whole?

A. It is used for similar purposes as similar reserves are used. I cannot enlarge more on this point.

Q. It would be against the possible loss of any part of such goods that you have an inventory at the end of the year?

A. Yes, I think you recall that during the year or in the fall of 1943 and in the spring of 1944 we were informed by the press that the end of the war would be a coming event in a more or less considerable delay, and the end of the war, evidently, one does not know what it may mean, but according to past experience, which is always a guide, according to past experience, the end of a war always creates a collapse of prices, and I think we were justified in doing what we did.

BY MR. BEAUREGARD:

Q. The increase of your reserves corresponds with the increase of your inventory?

A. Yes. At the end of that period, 1943, it was quite hard to make deliveries of goods; we were weeks and even months without receiving anything and one day, we would receive a train load. Naturally we had to take risks with regard to the preservation and the sale of these products, and taking into account the value of the inventories from year to year, we thought it would be reasonable to increase our reserves.

BY MR. BROSSARD:

Q. After all, such reserve is a protection against the

possible falling off in prices?

A. Yes; it is also a reserve to allow us -- and it must not be forgotten -- with regard to our associations, we are bound by contract to supply them twelve months during the year, on the other hand, if I were in business for myself after having done what I deem reasonable, I may carry on, but I am not obliged to do so, but as far as the cooperative is concerned the obligation is permanent.

Q. With regard to the general reserve, I notice that at the end of the year 1943 you have a general reserve amounting to \$201,000. Of that amount \$72,216 were set aside during the year 1943?

A. Yes.

Q. Is it due to the increased amount of business, of your revenue, that such a large percentage of the total general reserve was set aside in 1943?

A. In the matter of reserves there is, I believe, a practice which is followed generally. By definition, reserves -- if I am not mistaken; I do not intend giving a definition in economic or legal terms, but a plain definition -- by definition, reserves are amounts set aside in anticipation of something, and when one does not have what it takes to balance a budget at the end of the year, well; it seems to me that one has to do without them. In that respect, the cooperative does what the farmers are doing.

As you were told from 1930 to 1939, the farmers were unable to balance their budget and unavoidably had to let their buildings deteriorate, and were unable to invest in their undertaking what it took to keep it in good producing order. They had to do some belt tightening and they realized that their first obligation was to feed themselves and to remain owners of their farms as much as possible and you are

well aware that during that period several farms have changed hands. The cooperatives followed the same attitude; they had nothing -- if you examine the operations, the operating statements of local cooperatives and of the Federee for the same years --- they had not enough to set aside necessary reserves and even there were local associations which, for years, did not enter in their operating account the necessary amount to cover the depreciation reserve. When, after exceptional and temporary conditions, it was possible to eat, repair buildings and attend to their upkeep, it was deemed normal to put aside a few dollars to cope perhaps with the advent of the lean years.

Q. During the profitable years? A. Yes, and in that respect the cooperatives have followed the same course as the farmers.

Q. May I ask you if, during 1944, you have used any of that reserve or if same has increased? Q. It remained stationary.

Q. Was there any sum invested in that reserve at the end of 1944? A. In which reserve?

Q. The general reserve. A. No.

Q. Were there any other sums invested in other reserves at the end of 1944?

A. In the depreciation reserve, obviously, and the reserves for doubtful accounts were adjusted according to the need of our debit account.

Q. Was there a surplus at the end of 1944?
A. Yes.

Q. Compared to the amount of \$748,000, after having set aside the reserves for 1943, what was the balance at the end of 1944? A. Compared to what?

Q. To the surplus of \$373,437, in 1943, what was the

surplus for 1944? A. You ask what was the surplus? The balance sheet having not yet been approved, I could not give you the amount. It will be submitted to the commission.

Q. It has not been approved? A. Our balance sheet has not yet been submitted to our directors, or to our members.

Q. You are not in a position to give that information?
A. I do not think I should give that information to you.

BY MR. NADEAU:

Q. You will give it later on? A. Certainly.

BY MR. BROSSARD:

Q. I notice, Mr.Martin, that in your balance sheet for 1943, as well as in your report of operations for the same year, there is noreference to subsidiary undertakings, to affiliated organizations. Did you keep a separate account for those affiliated organizations? A. Would you specify?

Q. I am referring to the Dominion Elevator and the Cooperative Canadienne de Betail Limitee.

A. Those are, as it has been explained here, two companies.

Q. Do the figures of the 1943 balance sheet take into account the operations of the Dominion Elevator and the Cooperative Canadienne de Betail Limitee? A. Yes.

Q. That is included? A. Yes, in the consolidated balance sheet.

Q. In the amount of your sales, the sales made by either of the two companies are included? A. Yes.

BY MR. NADEAU:

Q. Have you the balance sheets of those two companies?
A. Not with me.

Q. If I am not mistaken, I think that we were to have them. A. That is not what I understood this morning. I would have been pleased to produce them; I was probably not

in the room at that moment. They will be furnished to the Commission.

BY MR. BROUSSARD:

Q. It might be possible to have the report of operations?

A. Yes.

Q. Are you in a position to tell us what is the percentage of the amount of sales in 1943 that have to be charged on the operations of the Dominion Elevator and the Cooperative Canadienne de Betail?

A. I cannot give you any figures of mathematical accuracy in that respect; it amounts to a very small percentage of the grand total.

Q. A small part of the thirty millions mentioned there?

A. Yes.

Q. Do you know if the operations of either of those two subsidiary companies show a surplus?

A. From memory, it is also difficult for me to give mathematical details. However, in the case of the cooperative de Betail, the commissions charged, as established by the dominion government, are the same as in 1930. Then, you can make the deduction.

Q. Unfortunately, I cannot make the deduction.

A. Because, from 1930 to 1945, the cost of that kind of operations have surely increased, while the commissions have remained the same, which means that at the time there was no substantial margin at the end of the year 1930, and that in 1943 or 1944 the margins should not be very great.

Q. Do you take into account the sales made to your members and those made to non-members?

A. To make the patronage dividends on overpayments shown as having been paid, figures certainly have been compiled.

Q. Are you in a position to give us exact figures of the volume of sales made to non-members or to members either of the Cooperative Federee or of affiliated cooperatives?

A. We have twenty, twenty-five or thirty varieties of products, and those products -- whether farm products or occupational utility goods are concerned -- are in variable volume in their total, from one year to another, and my memory is not good enough to give you the percentates on twenty or twenty-five or thirty products.

BY MR. NADEAU:

Q. It is not a question of memory. Do you keep separate accounts for the operations of members and non-members?

A. I said that in order to pay the amounts of the patronage dividends that we have made, as shown in the statistics, in our balance sheet, including that at December 31, 1943, we should have had figures, and I am telling you that we handle twenty or twenty-five or thirty varieties of products, and the percentage on each of those products varies, because the volume of farm products, as well as occupational utility goods, changes necessarily from one year to another. I cannot give you any figure which is accuracy itself.

BY MR. BROSSARD:

Q. Could you give us accurate figures regarding the amount of sales made, during the fiscal year 1943, to others than members of the Cooperative Federee or of its subsidiary organizations, the total amount of sales made, the percentage?

A. What kind of percentages is desired? A. mathematical percentage or a balanced average?

Q. How much of the \$30,390,904,08 shown as the total amount of sales made during 1943, stands for sales made to others than members of the Cooperative Federee or to members of subsidiary organization of the Federee?

A. That is information that we will be pleased to furnish to the Commission.

BY MR. NADEAU:

Q. Mr. Bois gave us this morning a proportion of thirty per cent. A. That is a proportion that seems reasonable, as far as I am concerned.

THE CHAIRMAN:

Q. Do not you think there is a mistake on that figure?

A. As far as a figure quoted from memory may be correct.

Q. It would exceed twenty per cent?

A. According to what we were told this morning.

BY MR. BROSSARD:

Q. Are you concerned with bookkeeping? A. No, I am the secretary.

Q. Then, your knowledge of the balance sheet and the report of operations are about the same as those of Mr. Bois.

A. They are the same as those of anyone you would call here to give you figures from memory.

Q. You are not keeping the accounts yourself?

A. In an organization like ours, there are many persons who do the bookkeeping, and I think even the chief accountant could not quote figures from memory.

Q. In other words, you contend that you cannot give other information than that contained in this booklet?

A. We shall give to the commission all the details that it might wish to have; but you are asking me to lend myself to a memory test I cannot undergo.

BY MR. NADEAU:

Q. Mr. Bois told us this morning that you could answer any question as far as figures were concerned. You say that you are not in a position to give the particulars we are asking for because you are obliged to call upon your memory. Where

shall we apply to get full particulars? A. When it comes to figures, we have to see them, and I do not think anybody would accept figures from memory here. It seems to me that this information is pertinent for the commission, but perhaps less pertinent for another public.

Q. That is another matter.

MR. BEAUREGARD (text): The witness has just made the objection I was making. In the opinion of the witness, this is a type of information which should not be made public. The witness is perfectly willing to give every information to the commission provided it should be confidential.

THE CHAIRMAN: That is fair enough. We had better postpone his examination further, then, until we can see figures. What I suggest, Mr. Brossard, is that the witness be put in touch with Mr. Glassco in regard to the figures in question, and he can tell us what we should have in that time.

MR. BROSSARD: Then, we can suspend his examination, subject to its being adjourned indefinitely.

THE CHAIRMAN: Under the circumstances, I cannot see any advantage in going on with this discussion of the statements.

(Translation):

HORMIDAS LAFOREST

51 years old, from Lac Bouchette,
Lac St Jean, being duly sworn on
the Holy Evangelists, deposes:

BY MR. BEAUREGARD:

Q. You are a cooperator and a cooperative member in
Lac St. Jean? A. As far as possible, yes.

Q. Would you tell how many members there are in your

cooperative? A. Twenty-nine.

Q. That is the cooperative of Lac Bouchette? By what name does it go? A. The Cooperative de St. Thomas d'Aquin.

Q. Would you tell us the kind of products your cooperative is interested in? A. First, it is from the viewpoint of live stock feeding: the various feeds, stock feed, poultry feed, hog fattening and raising.

Q. How many years has the cooperative you are referring to been in existence? A. Since 1937.

Q. What is the financial standing? Is it good or bad? A. Not very good.

Q. Now, would you tell the commission what, in your opinion, the cooperative has done for your district? A. First, in 1937, when it was suggested to organize ourselves and to form a cooperative syndicate, the cheese factory was in a deplorable state of depreciation. It was owned by a man who, pretty often took very little care of it, and the cheese-making season was very short. Butter-making was unknown.

As we wanted to improve the farmers' situation, we decided to form a syndicate, which first undertook to improve the cheese factory and, to do that, we had to build, that is to buy the old factory which was completely demolished and to rebuild a new one, with equipment for butter and cheese-making. Later on, that enabled us to produce more cheese from year to year and to produce butter during spring and fall.

Q. What is the price of your shares? A. \$50.

Q. What is the amount of the capital paid up by the twenty-nine owners? A. \$1,400.

Q. That is your starting point? A. We started with less than that, but we have taken in members, and that is what we have now, \$1,400.

Q. Now, what kind of results have you achieved, as a cooperative, as far as the farmers are concerned? Do you regard your cooperative as useful for the group that is there?

A. I think so, especially for the improvement of dairy cattle and hog breeding.

Q. Can you give some figures, or some particulars, regarding the increase and improvement of dairy cattle?

A. First, when we took up the question of shorts, live stock shorts were hardly known among us. The parish is somewhat remote, and people were more interested in lumber than in farming; farming was more or less a routine occupation. We began to promote the use of shorts; the care of dairy cattle; we introduced live stock shorts; the same thing occurred for hogs and poultry.

Q. Would you give an idea of the volume of production for which your cooperative would be responsible?

A. First, in the beginning, we hardly produced four months per year, and to-day--

Q. You are referring to milk, butter and cheese?

A. Yes. We were producing during four months, and to-day we are producing during six. I could not give exact figures, but I could surely tell you that, on the whole, we produce from 125 to 150 more round cheese now than at that time, during the cheese-making period.

Q. If you have nothing else to say about dairy products, would you tell us to what extent your volume of hog breeding increased? A. As far as hog breeding is concerned, I should say that we thought very little of hog breeding in our locality. Now, according to the directions and talks given to us, we started to sell shorts for young and growing hogs. In the beginning, very few hogs were sold and shipped.

Q. To-day, are you shipping any?

A. This year, about thirty were shipped; last year, twenty to twenty-five.

Q. About thirty what? A. Hogs.

Q. Are you affiliated with the cooperative federee?

A. Directly through the Regional organization of Lac St. Jean.

Q. The regional organization of Lac St. Jean, that is the Federee of Chicoutimi which was referred to this morning. Does it not go by that name?

A. It is known to me as the Cooperative Regionale du Lac St. Jean.

Q. That is to say that in Lac St. Jean there is a regional cooperative of which yours in Lac Bouchette is a component part? A. Yes.

Q. Is there a cooperative in all the neighbouring villages? A. At St. Francois de Sales, there is one.

Q. How far is it? A. Six miles; the nearest one is 20 miles from our locality, in Chambord.

Q. With regard to the seeds, you get your supply in Chicoutimi? A. Last year, we got our supplies at the Cooperative Federee", through the Regionale, but they all came from the Federee.

Q. You do not do any seeding, in your district, you do not grow seeds? A. The farmers always grow some, but for the most part, seeds are bought. They grow a small quantity, a few bushels, but the bulk of them is bought.

BY MR. BROSSARD:

Q. How many farmers are there at Lac Bouchette?

A. Seventy.

Q. Do they all reside in the parish of Lac Bouchette, in the district of Lac Bouchette?

A. In the parish.

Q. And out of these 70, 29 are members of yours? A. Yes.

Q. These members are all of Lac Bouchette? A. Yes.

Q. When you were organized, in 1937, were you organized into an agricultural syndicate under the Cooperative Agricultural Associations Act? A. Yes.

Q. How many were you, at that time? A. Seventeen.

Q. And these seventeen original members have remained and you acquired twelve?

A. We took in a few members, each year.

Q. Was the syndicate organized through the effort of these seventeen members or through the initiative of some other persons, on the invitation or suggestion of some other persons?

A. At the start, when the organization was set up, it was to build the plant. Now, as you know, when a movement such as this is started in a parish, a great many people are on their guard, trying to find out if it is good or bad, most of them exercising the greatest caution, reflect; "We will put them to the test to see how well they make out". The second year, we recruited no new members. The reason was that considerable new debts were contracted to build the new plant and people were wondering if the enterprise could succeed.

The third year, we recruited three members, I think. In 1941, with the assistance of the agricultural technician and due to the intelligent explanations he had given on the working of the cooperative, we succeeded in reaching the number of twenty-two members.

Q. Since when are you affiliated with La Cooperative regionale du Lac St. Jean? A. Since 1942.

Q. You are not affiliated with the Cooperative Federee? A. No, we became affiliated with the Cooperative through the Regionale but we did, nevertheless, receive certain services

from the Cooperative Federee.

Q. You stated, a moment ago, that at the start you had contracted debts for the demolition and reconstruction of the cheese factory? A. Yes.

Q. Has the cooperative paid these debts since then? A. Yes.

Q. All of them? A. Yes.

Q. Could you give the original amount of the debts contracted for the reconstruction of the cheese factory?

A. At one time, we owed, I think, \$4,000 to \$4,500.

Q. With what did you repay this original debt of \$4,000, out of the revenues of the Cooperative?

A. Out of the revenues of the Cooperative and with the assistance of the Department of Agriculture.

Q. Through the help of a grant? A. Yes.

Q. What was the amount of the grant? A. A premium of one half of one per cent on our sales is paid to us every year, and, besides, we received aid in the form of grants, every year. The grants were not always the same.

Q. Do you prepare a statement of your operations, each year, to transmit to the Department of Agriculture. A. Yes.

Q. With regard to your own cooperative, could you let us have a statement of your operations for the last two or three years? A. I have the balance sheet for last year.

Q. Before we go on with the examination of this balance sheet, will you tell us whether your cooperative sells exclusively farm products delivered to it by its members, cattle, poultry, etc., delivered exclusively by its members, or whether it sells also, whether it delivers, to the Regionale du Lac St. Jean, product brought in by other farmers of Lac Bouchette who are not members? A. With regard to live stock business, it sells exclusively the products of its members.

Q. What about butter and cheese? A. As for butter and cheese, it is not quite the same thing; in that case, all the farmers are admitted to the factory, necessarily.

BY MR. BEAUREGARD:

Q. Why necessarily? Is there another factory? A. No, there is no other factory.

Q. They would have to go elsewhere. Where would they go? A. Some would have to go about twenty miles. If they did not come to our place, it seems they would have to abandon their lands.

BY MR. BROSSARD:

Q. Are the same terms given to farmers non members of your cooperative as are given to your members? A. Yes.

Q. The same terms? A. The same terms, with respect to manufacturing.

Q. Manufacturing, patronage dividends, costs?

A. There have been no patronage dividends,

Q. As for the costs? A. The costs of manufacturing?

Q. Yes. A. Yes.

Q. How much do you charge to make the butter and the cheese? A. Fifteen per cent, plus one cent per pound for cheese.

Q. Fifteen per cent of what? A. Fifteen per cent of the gross revenue.

Q. On that sum which is paid to you by the Regionale or by the Federee? A. Yes, the proceeds of the sales.

Q. Plus one cent per pound? A. Yes, One cent per pound of cheese or butter.

Q. And that amount, is it charged to the non-members as well as to the members? A. Yes.

Q. To whom do you ship your butter and your cheese? A. Last year, we shipped them to the Cooperative Regionale;

they were reshipped to the Cooperative Federee, I surmise.

Q. When you say "through the Cooperative Regionale", you mean that you shipped to the Cooperative Regionale which in turn shipped to some one else, or did you ship to the purchasers.

A. We shipped to the cooperative regionale, at Chambord. We knew that the latter was not the purchaser.

Q. You knew that it was for reshipment to the Federee?

A. Yes.

Q. From whom did you get your money, during the past five or six years? A. We received the price of our products from the Cooperative Regionale.

Q. And you are still receiving it that way?

A. Yes.

Q. Who fixes the sale price of your butter and cheese?

A. Since this year, I think, the price has been uniform.

Q. For the past six or seven years, since the beginning, before the war, by whom was it fixed? Who fixed the prices?

A. They were fixed at the time of the sale, on the market.

Q. Was it you that fixed the prices, was it your cooperative that fixed those prices, or was it the Regionale du Lac St. Jean or the Federee?

A. It seems to me, according to my meagre knowledge, that it was neither us nor the Federee.

Q. Did not the Federee sell at the current market price? It was the current market price that was fixed by the Federee?

A. Yes, it was the market price.

Q. That was what the Federee went by? A. Yes, I think so.

Q. You always accepted what the Federee remitted to you?

A. Yes, at the same time keeping an eye on the course of events.

Q. Being on your guard? A. Yes.

Q. Have you followed exactly the same procedure with regard to the sale of your live stock? You shipped it to the Regionale who in turn shipped it to the Federee?

A. Not quite the same procedure, because, with regard to our live stock, we always dealt directly with the Cooperative Canadienne de Betail, in Montreal.

BY MR. NADEAU:

Q. Did you sign a contract as to your dealings with the Federee? A. No.

Q. With that of Chicoutimi? A. Yes.

BY MR. BROSSARD:

Q. Under this contract, you agree to deliver your whole butter and cheese output to the Cooperative Regionale du Lac St. Jean? A. Yes, we agreed; we had to deal with them with respect to our products.

Q. Do you also buy from the Cooperative du Lac St. Jean or from the Federee de Montreal, all your supplies for farming purposes? A. Yes, we bought from the Cooperative Regionale.

Q. What are the main commodities you buy from the Cooperative Regionale? A. The various shorts required for the feeding of our live stock.

Q. Is that all? A. Yes.

BY MR. NADEAU:

Q. Fertilizers? A. Yes, fertilizers also.

BY MR. BROSSARD:

Q. Do only the members of your cooperative obtain their fertilizers from the Regionale, or do you distribute some to those who are not members of the Cooperative?

A. For the most part, they are distributed to the members of the Cooperative; the proportion of others is very small.

Ours is a small village.

Q. You stared a moment ago that the village had seventy farmers and that there were twenty-nine in the Cooperative?

A. I understood I was being asked about the district. For the parish, I place the number at seventy, and here is why: the financial report gives the number of farmers, of suppliers, who bring their milk to the cheese factory. I understood I was being asked the number of milk suppliers in the parish.

Q. Apart from those of the parish, are there any who bring milk? A. Those who are members bring milk to the cheese factory; but, there is a considerable number who do not supply milk and who are called farmers; they are settlers; they are just beginning. As soon as they have milk, we shall admit them.

Q. Here is what I would like to know: Are you in a position to state the number of persons with whom the Cooperative deals and who are not members of the Cooperative?

A. Ten per cent at the most.

Q. So that there would hardly be three or four?

A. I said a moment ago that there is a goodly number of farmers who are farmers but who do not farm on a large scale, even though they believe it advantageous.

Q. That is not my question. My question is quite simple; apart from the members of your cooperative, are there people who have business dealings with it, either to buy fertilizers, or feed stuffs, or to sell their milk and cream or their live stock to it?

A. We have helped a great many producers in the following respect: for the past couple of years, the Cercle des Fermieres du Lac Bouchette launched a campaign of egg production, chicken raising, etc., and, at one time, the market not being

very extensive at Lac Bouchette, they found themselves with a somewhat considerable surplus of eggs, so that people did not know what to do with their eggs and could not even sell them on the market; they were lowering the price to twenty cents, fifteen cents, a dozen.

They succeeded in selling them for a small amount of merchandise. The syndicate took upon itself to find an outlet for these eggs, and we communicated with the Regionale du Lac St. Jean and other places where eggs could be disposed of, and these people were using the Cooperative Regionale in this way, so as to take advantage of the outlets found.

It was of assistance to all the citizens of the parish inasmuch as this produce was somewhat new -- not new in the sense that it was a new invention -- but because our production had increased, and we wanted to help them, but without asking a cent for the services rendered.

Q. You undertook to find an outlet for them and did not charge them the fifteen per cent you charge to your members?

A. Not a cent.

Q. This could not be considered as sales made by non-members and a profit made by the cooperative? A. We did not get a cent. We were cooperating with le Cercle des Fermieres to create new revenue for the parish.

Q. Will you produce, as Exhibit 6, a copy of the balance sheet and of the financial statement of your Cooperative de St. Thomas d'Aquin, for 1943? A. Yes.

Q. I see that you have established a reserve. In 1944, you had a reserve of \$643. Was this reserve established out of the surplus you had had during the preceding years?

A. Out of the surplus we had.

Montreal, Quebec,
Wednesday,
February 21, 1945

The Commission resumed at 10 a.m.

HORMIDAS LAFOREST

(continues to give evidence as follows):

BY MR. BROSSARD:

Q. If I remember correctly, you stated yesterday that your cooperative of Lac Bouchette charged 15 per cent to its members for the sale of their produce? A. Yes.

Q. Does the Regionale du Lac St-Jean charge anything to the Cooperative du Lac Bouchette? A. To my knowledge, the only charge made was for the storage of our cheese.

Q. Solely for storage? A. Yes.

Q. No commission is paid for the sale of products? A. Not to my knowledge.

Q. Are you aware that, on the other hand, LA COOPERATIVE FEDEREE itself is imposing any charge, either to LA REGIONALE or to yourselves? A. Neither, as far as I know, there was no charge; not to my knowledge.

Q. You are receiving payment from LA REGIONALE? A. During the preceding years, payment had been received from la Regionale.

Q. When you did receive payment, was there any indication of the amounts retained out of the products' selling price? A. The only indication was for warehousing, handling of cheese, for there were no other transactions.

Q. La Federee or la Regionale were not making any deduction from the sale price? A. Not to my knowledge; I saw nothing of the kind in my records.

Q. I examined rapidly the balance sheet you showed me yesterday afternoon. I see you made profits every year,

probably owing to sound management, profits which would have amounted to \$1,349.16? A. Yes.

Q. Which you carried partly to a general reserve of \$664 and the balance of which is not already distributed or spent? A. Yes.

Q. Notwithstanding these profits which you have made year after year since 1939, I see you have been able to depreciate your buildings and your machines to the extent of \$7,192 on a total value of \$9,401 for buildings and machines? A. Yes.

Q. Such amount represents nearly three quarters of the value of your buildings and machines. Have you any explanations to give on this matter? A. Before ascertaining the net value of our syndicate's business, we found it advisable to make such deductions because these different revenues did not accrue from our annual operations; they were the result of different subsidies which had been given by the Government and of materials and properties which we had sold, and which were of no use at all.

Q. Were you able to arrive at the total depreciation of \$6,482, plus \$450, owing to the subsidies you had received? Did you receive in subsidies, during that period 1938-1943, sums amounting approximately \$7,000? A. At various times, I think so; you will not find all the details in there. There are different subsidies in this item of \$6,482; the sale of an old building, the sale of old materials which were of no use at all, land we had and which we were not using.

Q. Have you any idea of the amount? A. Subsidized?

Q. Yes. A. I am aware that we got, once, an amount of \$2,000 at one time, and, besides that, we got an amount of \$500, \$300, \$200.

Q. In short, had you not received such subsidies, you

would not have been able to depreciate your properties and your machines? A. No.

Q. And you would not have made any profits? A. No.

Q. You have made no payments to your members? A. None.

Q. All that is left at the present time of profits that you have made is a general reserve of \$663? A. Yes.

Q. And a saving of approximately the same amount?
A. Yes.

Q. As to the depreciation on your premises, do you follow a set policy? Do you calculate your depreciation according to a well determined percentage every year, or is all that left to the Council's discretion? A. The depreciation should operate on a basis of ten per cent.

Q. Do you proceed on such a basis? A. Yes; what upsets that, is when we have to divide the business administration with what we had received, the different amounts which had been given to us.

Q. Over and above an annual depreciation of ten per cent, you have applied the amounts you had received from the Department? A. Yes.

BY MR. NADEAU:

Q. Who audits your books? A. Mr. Emile Simard, of the Department of Agriculture.

BY MR. BEAUREGARD:

Q. Under the act, the books of the agricultural associations and of the cooperative syndicates are audited by the Quebec Department of Agriculture? A. Yes, every year.

Q. What stage of development has your cooperative reached? Do you really have what you need to operate fully?
A. We have nearly everything we need to operate now, provided, however, that the price charged for manufacturing and the management of our plant is maintained, that cent of which I

was talking yesterday, plus one cent a pound, which would represent the deficit if we were operating like others.

Q. Will you look at the statement that has been submitted to you, at the page entitled "Deficit and surplus?" This statement begins December 29, 1939 and ends March 31, 1944. Do you see, as I do, that under the heading "Annual profit" in 1939, your branch had made \$76,96? A. Yes.

Q. Patronage dividends paid "Nil"? A. Yes.

Q. November 15, 1940, "Annual profits" \$68.30; general reserve "nil", patronage dividends paid "nil"? A. Yes.

Q. For the following year, \$230.38; for the following year \$317; for the following year \$686, which makes a total of \$1,349 in profits or revenues. That is what appears there? A. Yes.

MR. BEAUREGARD (text): As to this copy, possibly we may have it back, because it is the only one we have in the archives. We will have a copy of it made -- we do not want to disturb the Commission at this time, but after the hearing.

THE CHAIRMAN: After the hearing you will have some copies made.

(Translation): Q. Then, when it was suggested to you, a moment ago, that out of your profits you had depreciated, you had decreased your physical assets to the extent of \$7,000, there must have been some misunderstanding, as your profits are shown on the page entitled "Profits and surplus"? A. Yes.

BY MR. BROSSARD:

Q. It was after depreciation that you have determined your profits for the year? A. Yes, it was after depreciation.

PHILADELPHIE FERLAND

residing at Normandin, Lake St. John, being
duly sworn on the Holy Evangelists deposes:

BY MR. BEAUREGARD:

Q. How old are you? A. Sixty-four.

Q. Where are you domiciled? A. At Normandin, county
of Roberval.

Q. How long have you been living in Normandin?

A. For the last 40 years.

Q. Have you been a farmer for the last 40 years?

A. Yes, I was a settler for a while and then a farmer.

Q. Was Normandin in existence when you arrived there?

A. Yes; we celebrated the parish priest's 50th birthday
anniversary this year.

Q. When you arrived there, it was a young settlement?

A. Yes.

Q. Did you go there as a settler? A. We bought a
piece of land, little or no land had been cleared, it was a
woodlot.

Q. What is the area of your holding? A. One hundred
acres.

Q. What is the population of Normandin? A. There are
325 farmers in the parish, and then there is the village; I
could not say exactly.

Q. Do you belong to a local cooperative or to a
syndicate? A. To a local cooperative.

Q. How many members are there in the cooperative?

A. To-day, there are 137 members.

Q. What type of production do you follow in particular?

A. Shorts, grains, seed grain, grass seeds, balanced shorts.

Q. Will you tell the Commission what was, according to
you, the usefulness of organizing a local cooperative?

A. The usefulness of the local cooperative? If you wish, I

will give a little idea of its development. When I came into Normandin Parish, I was young; we could see people who had farms in the surrounding parishes and who were very badly off, they could not get the full value from their revenues because they were not organized. I was wondering how we would be able to live on a woodlot. I was a member of every agricultural organization. We thought of farmers' clubs. I joined the farmers' club in 1906.

Q. What was the average revenue of the farmers in your community? A. We were not getting much; these were new lands; we were not selling anything; no merchants were buying our products; we were selling oats for 90 cents, 70 cents, for what we could get; we were selling pork 5, 6, 7 cents a pound.

I said myself: "We must try to manage so that we can live. In order to do so, we shall have to improve the farmers' products." I joined the farmers' club; we began by buying boars in order to improve that stock; we thought of improving seeds also. Then, at Ste-Rosalie, they organized a seed grain storage, a cooperative or syndicate; they came to us, they asked us if we were willing to take a share at Ste. Rosalie in order to have our seed grain screened. We considered it was a grand idea. It was said: "It's too dear." We bought a large screening mill to screen the seed grain at home.

In 1913 or 1914, we heard there was an agency in Montreal to help farmers. We were glad to see there were people who were thinking of us; in those days as to-day, there were people who had good thoughts.

The farmers' club took ten shares in the Montreal Farmers' Club. It was far from home. We thought afterwards that we ought to organize a cooperative in order to improve

our lot at home, in order to improve our products and then for buying and selling and all that is needed.

We organized a small cooperative in 1935. I pass over certain periods which were rather different..... In 1935, we began with 28 members, St. Antoine Didime, St. Edouard, Albanel and Normandin; we began to do business and to improve our lot. Merchants came to us; they said: "How is it that you thought of improving yourselves? It's a good thing; when we will sell you something, we will be paid."

Q. Will you say what kind of products you are interested in, how you receive them, what you do with them, how you sell them, what you do, what they yield? A. In the first place, we breed hogs, we are improving hog-breeding, we produce feedstuffs, balanced shorts for our hogs. With all that, we are making progress; it does not cost too much, it enables us to earn pretty fair revenues. We are making shorts at home.

Q. And you sell them to your shareholders for hog-breeding? A. Yes; they are feeding animals with that; it is more profitable than to feed animals with unprepared feedstuffs.

Q. Besides selling hogs and shorts, what have you? A. We have animals, we have a cheese factory we bought three years ago, which was in very rundown condition and which we rebuilt and to-day it yields a return for our members. We are turning out a good product.

Q. Have you paid patronage dividends since you are in operation? A. When we began, we paid three years of patronage dividends; we were applying that to shares. This year, we paid for 1937 and 1941. 1938, 1939 and 1940 were paid last year. We applied that to shares in order to give people a better chance to come in. This year, we paid an outstanding balance of 1937, we paid 1941.

Q. Your people are paying their admission share with the patronage dividends? A. The fact is they had paid those years. Since then, they are paying with money. The patronage dividend is declared, it is not paid. When we established the whole thing, we put in our members' mind - and it is real too - that everybody's profits were theirs. They know that, they belong to them.

Q. Do you consider that the existence of the cooperative, in your community, is essential to the development of the region? A. It is indispensable for the farmers.

Q. You spoke a little while ago of people who have good thoughts. Do you think it would be a good thought to impose a tax on local cooperatives? A. It is far from being a good thought, because these profits, in our communities as well as anywhere else in the province, are not high. When we will have made a certain amount of money, we will be glad to pay, but buying before reaching that point, it hurts us a little.

BY MR. BROSSARD:

Q. What is the admission fee for each of your members?

A. The share cost \$50.

Q. Is there a limit as to the number of shares each member may hold? A. One share per member, one common share per member.

Q. Are you making two types of transactions? You sell the products of your members and you also buy certain products, other products, which you resell to your members? A. Yes, what we cannot produce ourselves, what we need for our shorts, for instance, and that cannot be produced on our farms.

Q. You make three types of transactions; you sell the products of your members, butter, cheese and live stock?

A. They are shipped to the cooperative.

Q. You buy certain products which you put at the disposal of your members? A. Yes.

Q. And you produce certain products which you sell? A. Yes.

Q. Do you make a profit on each type of transaction? A. Yes, a small profit.

Q. What do you use for your shorts? Are the ingredients supplied by your own members? A. When we prepared balanced shorts and we use oats and barley, we have to buy the ingredients.

Q. On what do you base the sale price of shorts to your members? A. On the cost of the ingredients and we add a small percentage which varies, it is very small; I could not tell you exactly, I am not the secretary, I am only the president. It is not a big percentage; we manage to follow the market price as much as possible, we follow the market price.

Q. The current price? A. Yes.

Q. On what were based the patronage dividends declared in the past? A. On the pro rata, on the aggregate of the turnover of each member?

Q. On what turnover? A. If he has purchased for \$100, and we declare 3%, \$3.

Q. Only on the purchases he has made? A. On the purchases. Usually when we sell, we have most of the time the revenue of the goods. It is only on the purchases.

Q. In other words, you do not give patronage dividends on the sale of your members' products? A. Only on the purchases, because we do not guarantee anything on the sale; we retain a small administration fee to cover expenses.

Q. Did you not say a moment ago that you were realizing

however a certain profit on the sale of your members' products?

A. A member who sells some products receives the value of his products, the others do not realize anything on it.

Q. Less a certain fee? A. Less a certain commission.

Q. Have you any idea of the percentage of this commission? A. I could not tell you exactly; it is supposed to be a commission of 1%, 1½% and even 2 %.

Q. Are you interested only in the sale of the products of your members? A. That is to say as far as cheese is concerned, there are six farmers who are not members of the cooperative and who bring their milk to the cheese factory.

Q. How many out of your 137 members bring milk?

A. Sixty-five come to the factory.

Q. And apart from those 65, there are six or seven who are not members? A. Yes.

Q. Do you look after the sale of other products on behalf of persons who are not members of your cooperative?

A. Yes, the pork. At Normandin, we are about the only one to ship the pork of that locality. There are some who are not members.

Q. Are there any non-members shipping with you? A. Yes.

Q. You do not refuse any one applying to you? A. No, we look after the sale of their products.

Q. Are they paid in the same way? A. Yes.

Q. They pay the same fee? A. Yes.

Q. Do they receive the patronage dividends? A. No, they receive it if they are willing to become members; they receive 50% of the patronage dividend they would have been entitled to.

Q. They would have been entitled to during the year before they become members? A. Yes.

BY COMMISSIONER NADEAU:

Q. Are there any live stock dealers at Normandin?

A. Yes.

Q. With regard to the cost price, what price do you pay your members? A. The market price.

BY MR. BROSSARD:

Q. In other words, you give more to your members than the dealers pay? A. They buy through middlemen; sometimes they buy pork for which they pay more.

Q. Do you sell also to persons who are not members, products bought through the cooperative? A. There is only one service in the locality as far as shorts are concerned and it is given by the cooperative. We cannot refuse the others.

BY COMMISSIONER NADEAU:

Q. There is no flour mill? A. No, there are some little mills, at some distance, operating by water.

Q. As to the products you offer for sale, do you make a distinction between your members and those who are not?

A. We sell at the same price.

Q. Do you give patronage dividends? A. In respect to our members, we give them a patronage dividend; as for the others, we give them the patronage dividend provided they buy a share.

Q. With regard to those who do not become members of the cooperative and who helped you to realize a profit on the sale of their products, you divide the profit between those who are members? A. No, we keep it in reserve. First of all, we have been obliged to build. It is a large locality, and had it not been for those revenues we would have been forced to build on a smaller scale.

Q. I gather that you establish reserves with the

profits made on transactions with persons who are not members?

A. Yes.

Q. Now, what is the amount of said reserves established since 1935? I notice here, in the report of the Federee, a sum of \$22,615. Is it exact? A. Yes.

Q. It is for the current year? A. No, it represents the general reserves since 1935.

Q. Apart from the general reserves, you have been able to establish a depreciation reserve for your buildings and machinery? A. We have a depreciation reserve; it is not included in the general reserve.

Q. In the report I have in my hand, I notice a capital expenditure amounting to \$33,213? A. It represents the property; the factory, building, warehouse, land, shed. We have four buildings and also a house.

Q. Do you know what was the depreciation up to date? A. Not off hand.

Q. You have not the balance sheet for the previous years? A. I have one.

Q. Would you table a copy later on? A. Yes.

Q. I understand you are not in a position to explain it? A. No, I am not in a position to explain it.

BY MR. BEAUREGARD:

Q. If I understood you well, on products shipped on consignment to your local cooperative and which you sell for the consignees, you take nothing else but a small commission? A. Yes, a small commission.

Q. Which is used for what purposes? A. To pay the operating costs; there are the postage, the clerical work, etc.

Q. Consequently, your revenue would be limited to what you realize on the products you sell, you produce, you buy and resell? A. Yes.

Q. You give a patronage dividend to your members on said products? A. Yes.

Q. As far as the non-members are concerned, if they desire to become members, they receive half of the patronage dividend for the period covering the operations and, in the future, they will be considered as members? A. Yes.

Q. Then your reserve is composed of the retention or the overpayment, you retain either from the members or the non-members? A. Yes.

Q. What is the purpose of that reserve? A. That reserve is used as working capital, to carry on the operations; we have to carry a stock at all times.

THE CHAIRMAN:

Q. Could you operate without the said reserve?

A. It would be more difficult; we could not; we would have to get other funds, because we need money to operate. We need money to buy the grain and all the other products coming from Quebec or Montreal.

BY MR. BROSSARD:

Q. You have to buy such grain long before selling it to the farmers? A. We must always have some in stock.

Q. You have to pay for the purchase and the warehousing? A. Yes.

Q. You have also to pay your staff? A. Yes.

Q. The money is used for that purpose? A. Yes, that is the use of the reserve, so that we do not have to pay interest outside.

JOSEPH HECTOR PARENT

aged 72, residing at St. Sylvere, County of Nicolet, having been duly sworn on the Holy Evangelists, deposes:

BY MR. BEAUREGARD;

Q. How old are you? A. Seventy-two years old.

Q. Are you still farming? A. Yes.

Q. How long have you been farming? A. Twenty-five years.

Q. Always at St. Sylvere? A. Yes.

Q. Do you know that a cooperative exists at St. Sylvere?
A. Yes.

Q. Would you tell us on what date that cooperative was established? A. We started to train cooperators in 1924.

Q. What prompted you to organize a cooperative?
A. The extreme poverty that existed at St. Sylvere. Twenty-five families left the locality during that year.

Q. Why? A. Because they were too poor; they went to the United States.

Q. What kind of land have you? A. Yellow soil, black muck, rolling land and stony land.

Q. What type of farming do you do? A. Mixed farming, once the land is improved.

Q. When were people leaving in large numbers?
A. There was no crop, it was too wet; they did not know what type of farming was suitable.

Q. It is at that time that you started the cooperative?
A. Yes; we studied together and we organized a cooperative for the sale of our products.

Q. What result did you have? What is the membership of your cooperative now? A. We have one hundred (100) members.

Q. Does it extend beyond the limits of St. Sylvere?
A. No; it is limited to the parish.

Q. Does your cooperative specialize in some product?

A. We started with potatoes.

Q. What result did you get? A. Splendid. We prepared the ground specially and the potato crop yielded good results.

Q. You originated the potato crop in your locality?

A. Yes, to help improve our farms.

Q. In what other branch were you interested?

A. The dairy industry. The improvement resulting from the potato crops gave us the opportunity of having good pasture lands. We have to alternate often; our live stock does well.

Q. The other activities of your cooperative are cheese and butter? A. Yes, butter, cheese and shorts.

Q. Tell us how your cooperative operates with regard to your members? What do you sell for them and what do you sell to them? A. The live stock, eggs, poultry, potatoes are consigned. We buy shorts for them.

Q. You receive on consignment the things you have just enumerated and you sell feed? A. Yes, and we make butter and cheese.

Q. How does the cooperative make expenses and where does its reserve come from? From the sale of what products?

A. We charge a commission on every line of goods, a small commission.

Q. Do you give patronage dividends? A. Yes.

Q. Do you deal with people who are not members of your associations? A. There are very few. There are 150 farmers and we have 100 members; the remaining 40 are grouped apart in the parish; they have their store and their butter factory. They are not doing very well and our farming system does not help them either.

Q. They send their products to be sold separately from

yours? A. Yes, separately.

Q. In your association, the sale to non-members cannot be considered, it is not worth while, is it? A. No, it does not work. And they even came near to going broke a few days ago.

Q. Do you consider the economic condition of your cooperative members of the same parish more advantageous than that of non-members? A. It is completely different. As I said a while ago, we first studied farming methods and then we practiced what we had learned and to-day, we may be commended for having five agricultural prize-winners in the parish.

Q. Among your members? A. Yes.

Q. And you attribute this success to work in common? A. Yes; at any rate, they seem to live pretty well.

BY MR. BROSSARD:

Q. Are there not a certain number of families who had left you in 1922-1923 and who have come back? A. Yes, they came back and we have members among them.

Q. The greater part of them? A. All our land is taken up nowadays.

Q. You say that your improved methods of potato growing preceded the constitution of your cooperative, or did they come after? A. Before its foundation.

Q. It is after improving your farming methods that you decided to organize? A. Yes.

Q. Has your cooperative only common or preferred stock? A. We have preferred shares held by our members. There may be seven or eight hundred dollars worth held by outsiders.

Q. Have they voting power? A. No.

Q. The preferred stockholders are mostly members of your association? A. Yes.

Q. With the exception of about \$800 held outside?

A. Yes.

Q. What is the amount of the preferred stock. ..

A. Sixteen thousand two hundred and thirty-nine dollars.

Q. What are the shares worth? A. \$50 each.

Q. The difference is made up of common stock? A. Yes.

Q. Is there a limit to the number of shares each of your members may hold? A. It has not been set. When we built our factory, we took all the money offered and we issued preferred shares for it.

Q. No one has more than ten shares? A. No.

Q. Do you pay a dividend on your preferred stocks?

A. Yes, 4 per cent.

Q. Interest? A. Yes.

Q. You pay 4 per cent per year? A. Yes.

Q. Have you done so since the start of the cooperative?

A. Since the shares were issued. We decided to pay interest on the second of January every year.

Q. Do you also pay any interest whatever on your common stock? A. No, we give the patronage dividend on that.

Q. Out of the profits you have made since the start of the cooperative what part have you paid back by way of patronage dividend to your members? What is the proportion, approximately?

A. Our cooperative paid no patronage dividends for 8 or 9 years because we were not strong enough. We kept it going with 5 or 6, 6 or 7 active members, but it was not enough. In 1938, others began to stick to their contract and business increased.

Q. And since 1938 or 1939 your volume of business has increased? A. Yes.

Q. The profits have increased also? A. Yes.

Q. You have also been able to make provision for reserves? A. Yes.

Q. For what purpose do you make those reserves?
A. Frankly, my knowledge of accountancy is not good enough to explain that.

THE CHAIRMAN:

Q. Have you your balance sheet? A. Yes.

BY MR. BROSSARD:

Q. Would you produce a copy? A. Yes.

Q. What about the undivided profits, how do they stand in your books? Do you credit each member with a share of the profits? A. You mean patronage dividends?

Q. Let us say patronage dividends. A. No, they are not paid out; they are invested. We are using them now.

Q. At the year end you declare a patronage dividend?
A. Yes.

Q. Part of this patronage dividend is paid out in cash?
A. It is paid on feed but not on butter and cheese operations; however, it is invested. It is to be handed over to those who carried it.

Q. What do you do with the patronage dividends declared by you? A. We paid our debts with them.

Q. You withheld them? A. Yes.

Q. Did you credit each of your members with them?
A. Yes.

Q. In your books just now, every one of your members is a creditor of the cooperative for every patronage dividend that has been declared? A. Yes.

Q. You have used for your own business purposes these declared and undivided patronage dividends? A. Yes, to increase our business.

Q. Do the members themselves recommend that procedure?

A. Yes, at the general meeting.

Q. Did they approve the decision of the board of directors in that respect or did they take the decision themselves? A. Themselves.

Q. That would be like making an investment in the enterprise? A. Yes.

Q. Do you consider this investment likely to bring additional revenue? A. Yes, it will allow us to expand into new lines.

BY MR. BEAUREGARD:

Q. You will be able to expand? A. Yes, evidently.

THE CHAIRMAN:

Mr. Beauregard, do you not think it gives us a pretty good idea?

BY MR. BROSSARD:

Yes, as I was telling Mr. Martin, the Commission is sufficiently enlightened.

THE CHAIRMAN:

Mr. Brossard, have you any more questions?

BY MR. BROSSARD:

No, sir.

MR. NADEAU:

If you will allow me, I would like to ask Mr. Martin two or three questions. I understand his evidence has been withheld.

MR. BROSSARD (text): I understand that we put questions also in writing to Mr. Martin - isn't that it? - in regard to information that he does not wish to be made public.

MR. ROMEO MARTIN

is recalled, and having been sworn previously, deposes.

BY MR. NADEAU (translation):

Q. Is the balance sheet in our hands, dated February 10, 1944, and produced by you, the consolidated balance sheet of all your cooperatives, of the central cooperative and subsidiaries? A. Yes, sir; it is the consolidated balance sheet of the Federated Cooperative, the Canadian Live Stock Cooperative and the Dominion Elevator.

Q. All the balance sheets of your subsidiaries are separate? A. Yes, they are balance sheets like those produced some time ago as exhibits, because the organizations are self-managed.

Q. Will you kindly take the balance sheet we are talking about, for the year 1943 and dated February 1944. In the Operations Statement, will you kindly tell me of what is made up the item "Miscellaneous Income: \$8,444.45"?

A. It is made up of income items from all sources, which it is practically impossible to distribute among the whole series of recorded expenses. In many cases they are not really income items, but simply adjustments of accounts already entered and, in order to avoid making changes which would not help very much from our own point of view, they are entered under the general item: "Miscellaneous Income".

THE CHAIRMAN:

Q. They do not represent interests on your investments?

A. I do not think that they are interests on our investments; there may be however some interest returns among them. Now, the investments amounting to \$146,831 in the balance sheet are not investments in the proper sense. If you look under liabilities, you will see that we have subscribed to victory loans. That is an investment. But, if you look at the other

side of the sheet, you will see that we had to borrow the money. So we sold the bonds because it was rather hard to go on paying 4 and $4\frac{1}{2}$ on the money we had borrowed when we were getting only 3 per cent for it.

In the same way the mortgage loans represent, in some cases, the proceeds of some property we have sold. They are not investments either in the proper sense. It is a debit account guaranteed by a first mortgage.

BY COMMISSIONER NADEAU:

Q. Under the heading "General Expenses", I notice an item "General Insurance \$22,000". What kind of insurance?

A. Fire insurance on our property, as distinct from insurance amounting to \$15,000 included in direct expenses and which, like all the other items under the same heading "Direct expenses" applies more particularly to the protection of our own goods and, in some cases, to the goods we receive on consignment, even if they do not belong to us, but to the shippers, who are themselves owners of all the Federee's assets.

Q. When a member sends you a shipment of live stock, is not that insurance premium charged to him? A. We have shipment insurance of which our shippers may avail themselves as they see fit, and besides, we are authorized to follow that course by virtue of the act governing the Cooperative Federee. We insure the shipments of live stock, we insure them in transit against accident, injuries, death, likely to occur on the way. We charge premium rates to be able to meet possible losses.

Q. I see another item "Advertising". Do you have to advertise to reach your members? A. No. We enter under that heading "Advertising" the expenses we are obliged to incur in order not to turn down all the advertising

solicitors who come to us.

Q. And on the other side of the page, I notice "Less" under the heading "Surplus Account", "Less - dividend 1942". What dividend does it mean? A. It is this way: dividend is the term used in the balance sheet because it corresponds with the term given in the Act. In fact, this is the interest on the preferred stock.

Q. Fixed interest? A. Yes, fixed interest, because for all practical purposes it represents a loan in the normal course of operations. Now, that interest obviously comes out of the 1943 balance sheet as it was paid during 1943. It is the interest accrued to the 31st December and paid out during the ensuing year.

Q. I notice a reserve for doubtful debts. Does that apply to the doubtful debts of members or non-members?

A. I could not give you the proportion likely to apply to members. We sell to our members and to persons who, sometimes, seem unwilling to pay.

Q. When it becomes difficult to recover the proceeds of a sale made on behalf of your members, is the member paid just the same by the Cooperative? A. We believe that risks of that kind are part of the responsibility assumed by all members.

Q. Do you pay the member all the same? A. Yes, and we provide out of operating costs, if I may say, we provide for those cases in such a way that an individual may not at a given time be penalized or suffer a total loss in respect of the products he consigned.

Q. At any rate, your member does not incur any risk? A. He will, at the end of the year, assume his share proportionately to his contribution.

THE CHAIRMAN:

Q. Under the "General Expenses" item, -- I am not familiar with that -- but it seems to me that those expenses are a little high. "Travelling or representation expenses, \$19,000." A. This covers the travelling expenses of the directors, the members of the executive, because when those people leave Lake St. John, Abitibi or Lower St. Lawrence and spend three or four days, it is normal nevertheless to pay their travelling expenses at least.

Q. You can have good trips for \$19,000. A. There are 18 directors, and 5 members of the executive. Three meetings of the board of directors and twenty-two meetings of the executive were held in 1944. In addition to that, there are departmental managers, the general managers and other employees who have to go from Montreal to Quebec, Rimouski, Victoriaville, Princeville and even in Abitibi.

Q. However, this seems to exceed the amount that an ordinary company would have allowed for that purpose. You have also "Stationery and office supplies: \$16,000".

A. Yes; when we get a carload of cattle in a regular transaction between two individuals, there is an invoice. In the case of the Cooperative if there are 25 or 30 shippers, a general account and an invoice are required for each of them. Each transaction of that kind involves a multiplication or increase of stationery. We print those schedules; that cannot be done for nothing, and there are a few other printings of that kind.

BY MR. BEAUREGARD:

Q. Do you supply local organizations with stationery?

A. We have book-keeping material and stationery of every kind printed for affiliated local cooperatives.

BY MR. BROSSARD:

May I ask two questions, Mr. Chairman?

THE CHAIRMAN:

Yes.

BY MR. BROSSARD:

Q. On the assets side, you have a reserve for depreciation on capital expenditures, \$205,922.45. A. Yes, this is the reserve accrued since the beginning of the Cooperative.

Q. Out of those \$205,000, \$38,000 were set up in 1943, according to your operating account, \$42,000 on equipment and \$38,000 on buildings? A. Yes.

Q. As to buildings, the depreciation that you took last year would represent more than 5 per cent? A. That is right.

Q. Now with regard to equipment, machinery, it would represent more than 10 per cent? A. Yes, it works out as follows: our equipment includes trucks whose rate of depreciation, as you know, exceeds 5 per cent and may even exceed 10 per cent. Rates of depreciation are established over years in the aggregate to meet actual depreciation or according to the current rate. It is the same with machinery, equipment, machinery and equipment and it is the same also in the case of buildings.

Now, sometimes, it may seem that the rate of depreciation for a given year is a little higher. If depreciation is calculated according to the ordinary rate and if you happen to sell, in revising your assets -- and particularly in this field -- you are obliged to raise the rate a little more during the year, to reach a normal level.

Q. You would have increased it more last year than in previous years, as far as depreciation is concerned?

A. Perhaps more than the previous year; not necessarily more

than required by reserves for wear or actual depreciation, in the aggregate.

Q. Under the surplus account for 1943, at item "Patronage dividend" 1942, \$97,840.74", is it the whole of the patronage dividends paid in 1942 that is shown?

A. The patronage dividends totalling \$97,840.74 earned in 1942 were paid in 1943. To sum up, this is the whole of the operations.

Q. Am I mistaken when I say that your Cooperative makes profits in selling the products supplied by its members as well as in selling to people who are not its members products which were not purchased from its members, that in processing other products in some of its branches, especially the Princeville Abattoir, it also makes profits on investment that it owns? Are not these the four major sources of the profits made during a year by the Cooperative?

A. The profits made from net operations or overpayments necessarily result from transactions made for and on behalf of our local cooperatives, our members therefore, and also for and on behalf of non-member individuals or organizations which come to us.

Q. And you are not in a position however to tell us to what extent those profits or overpayments may be divided between those four classes of operations? With regard to investments, yes.

A. As to investments, they belong to the infinitesimal order.

Q. With regard to sales made to non-members of products supplied by non-members, you cannot tell us that?

A. That is a question connected with those you asked me yesterday.

Q. As to the products you are processing?

A. It is the same thing.

BY MR. BEAUREGARD:

The rest is a debate on the words "benefits" or "profits".

BY MR. TROSSARD:

Q. Under the general expenses item for 1943, "Contributions, \$6,338". What is that item? A. We are, for instance, at the Cooperative Federee, members of the Federation Canadienne d'Agriculture, members of the Conseil superieur de la Cooperation, members of the Dairy Farmers of Canada. All this is included in the amount of \$6,338 that I would not venture to itemize for fear of making a mistake.

I may say that at a certain time we gave a scholarship, and I think that this is another amount which is included in that total of \$6,338.

MR. BEAUREGARD (text): That is the case, Mr. Chairman. We might be ready now to proceed with the United Fishermen of Gaspé.

THE CHAIRMAN:

Is that an English case?

MR. BEAUREGARD:

That is another French case.

THE CHAIRMAN:

I wondered if at this stage we might not have an English case, for the edification of my colleagues.

However,----

MR. BEAUREGARD:

Unfortunately, there are two other cases I have; one is L'Alliance des Cooperatives de Consommation, which I believe will be entirely in French. A brief has been prepared by Mr. Barbeau, and I do not think we have any translation.

I will file the annual reports and the constitution of the United Fishermen of Gaspé.

I have the honor to acknowledge the receipt of your letter of the 10th inst. in relation to the matter of the donation of the land to the State of New York.

The State of New York has the honor to acknowledge the receipt of your letter of the 10th inst. in relation to the matter of the donation of the land to the State of New York. The State of New York has the honor to acknowledge the receipt of your letter of the 10th inst. in relation to the matter of the donation of the land to the State of New York.

UNITED FISHERMEN OF QUEBEC

JEAN ALEXANDRE BOUDREAU,

31 years old, residing in Ste-Anne de la Pocatiere, P.Q.,
being duly sworn on the Holy Evangelists, deposes:

BY MR. BEAUREGARD:

Q. What is your connection with the United Fishermen of Quebec? A. General secretary.

Q. I understand that you have prepared a brief for this Commission regarding the United Fishermen of Quebec?

A. That is right.

Q. And you are at the same time, I suppose, the man on whom the United Fishermen of Quebec depend to furnish additional explanations, if any? A. Yes.

Q. With the Commission's permission, I would ask you to read the brief. A. With pleasure.

Brief Presented to the Royal Commission of
Inquiry on Cooperatives by the United
Fishermen of Quebec

- 1 - Situation of the Quebec fisherman before the organization of Cooperatives in 1939.
- 2 - Attitude of public bodies towards fishermen's cooperatives.
- 3 - History, organization and operation of fishermen's cooperatives of Quebec.
- 4 - Results secured to date by the organized fishermen and plans for the future.

- 1 -

It is an established fact that if one does not take war periods into account, the fisherman of Quebec is the most ill-paid in the world. In 1938, for instance, his average net income per day's work was 87 cents.

Fishermen, at least those who could still do so, migrated in great numbers to the large cities. From 1908 to 1939,

more than 7,000 fishermen left their boats to rot on the beaches and set out in quest of a less unprofitable occupation.

The situation of the fishermen was alarming. Most of them lived in the direst misery. They were, generally, badly housed, poorly clad and undernourished. Cases of tuberculosis were on the increase. In a word, it was the collapse of a whole industry.

- II -

In the federal field: In 1928, a Royal Commission was charged with the task of conducting an inquiry on the fisheries of the Maritime provinces and the Magdalen Islands. In its report, this commission strongly recommended to the Federal Department of Fisheries to help and even subsidize the establishment of fishermen's cooperatives.

For several years, this department has been paying annually a sum of \$50,000.00 towards an adult education campaign among the fishermen looking to the establishment of cooperatives. The organization of fishermen in the province of Quebec was brought about for a good part thanks to this policy.

The federal government pays in addition an annual grant of \$3,000.00 to the cooperatives of the Maritime provinces.

In the provincial field: The act creating the Service of Sea Fisheries of the Province of Quebec, Revised Statutes, 1925, stipulated that this service should: "See to the creation of fishermen's cooperatives, their organization and their operation." As a matter of fact, the provincial department of Fisheries has always interested itself closely in the matter. Upon the foundation of the United Fishermen of Quebec in 1939, it paid an initial grant of \$30,000.00 in order to enable the newly formed organization to operate

efficiently. Since then, it has helped in various ways, also both by grants and subsidies and through the collaboration of its officials.

Governments realized that it was preferable to help the fishermen to get on their feet through their own means rather than pay them relief money which improve nothing. From 1929 to 1939, the two governments paid in grants of every description more than five million dollars in Gaspé alone, of which close to three millions in direct relief to the fishermen, without succeeding in raising by one iota their pitiful standard of living.

- III -

The first fishermen's cooperatives in the province of Quebec date from 1923, following the transfer of fisheries administration by the federal to the provincial. This first attempt had rather promising beginnings and rendered appreciable services to the fisher folk and the industry. But a few years later, in 1927, the movement disappeared almost completely, for want of education in the matter of cooperatives.

The present movement dates from 1938, at the time of the foundation of the Superior School of Fisheries of Ste-Anne de la Pocatière. A social-economic service grafted on this institution and subsidized by the Federal Department of Fisheries immediately undertook a campaign of cooperative education among the fishermen. Short courses to form leaders, public lectures, distribution of suitable literature, conventions, radio, etc., all methods of adult education were used. As a result, the Federation of United Fishermen of Quebec secured its statutory existence in April 1939, when a special bill of the legislature incorporated it, under the Cooperative Syndicates Act of the province of Quebec. This

federation is organized on the local pland and formed on the hierarchical system into a central body which actually numbers 29 local cooperatives and more than 3,000 fishermen members.

Local cooperatives:

a) Financial structure: The locals are absolutely autonomous and each of them represents a separate corporate entity. Their capital is composed of the shares of the members. The amount of those shares varies from one to ten dollars, according to the communities, and in relation to the more or less great need for original capital. This capital bears interest which is now fixed at 4 per cent.

b) Operations: The locals look after the preparation, grading and packing of the products of their members, and the pooling of orders for the fishing-tackle which they may need. The locals do not purchase those products but only take them for processing purposes and return them afterwards to the federation which is charged with selling them, by billing them at the average price of the processor obtained on the great markets.

In order to enable the fishermen to meet their obligations and to live on a cash basis pending the sale of their fish, the local pays them a weekly advance of so much a pound on the products delivered during the week. This advance is not necessarily the price of the fish and, as a matter of fact, it is always lower than the sale value. It is fixed by the board of directors of the federation, which supplies the funds, and is based on the approximate value of the commodity, the cost of living and possibilities of securing funds. There is no rigid contract, between the locals and the federation, except that of affiliation and the one entered into at the time funds are supplied

by the "Centrale". The locals deal solely with their members.

c) Profits and Patronage Dividends: The amount of the profits is determined by establishing the difference between the total amount of the "advances" paid to the fishermen plus the cost of processing the fish, and the total of the invoices to the federation, at the time of the shipments. It is easy to understand that the question, here, is not one of "profit" in the commercial and usual meaning of the word, since there was not even a purchase. What is called "profits", solely to use an expression more easily understood, does not represent anything but the balance due the fishermen, on the true sale value of their products, and which must be refunded to them at the end of the fiscal year. From 1939 to 1943, the sums refunded in this way amount to \$525,248.64, on a total turnover of \$2,520,822.23.

d) Reserves: To consolidate the financial structure of their enterprise, and especially so as not to expose their organization to a second failure, local cooperatives levy each year an amount equivalent to 5% of their "profits", for lack of something better, for the creation of a reserve fund. This reserve represents, on the part of the fishermen, the temporary sacrifice of a fraction of the value of their products and remains ever their collective property. The reserves accumulated to date in the locals, represent an amount to \$46,644.18.

The Federation:

a) Organization and Capitalization: The federation, "Les Pêcheurs-Unis de Québec", (The United Fishermen of Québec), is also a separate corporate entity. Its capital comes wholly from its affiliated locals, which alone may own their shares, the value of which is ten dollars each.

The locals absolutely control the whole enterprise, through a board of directors elected at the annual convention, and chosen from among the fishermen members.

b) Operations: The federation organizes and directs the production at the locals; it supervises the book-keeping and the administration, sees to the general financing and undertakes the final sale of the products and the buying of fishing supplies. Moreover, it busies itself with everything that pertains to the development of the industry and to the occupational interest of its members.

So as to efficiently carry out this work, the operations are divided into two sections: production and purchases and sales.

(1) Production: The main office for production is located at Gaspé. The staff at that office is at all times in touch with the locals. It supervises and organizes all that pertains to their production and to their wise and economical administration; it supplies them with the necessary funds to make the "advances" to the fishermen and looks after the taking of the essential securities required by the banks.

(2) Purchases and sales: The main office for purchases and sales is located at Montreal. There, the United Fishermen of Quebec have purchased and equipped a vast modern cold storage plant to facilitate the orderly and more economical disposal of sea products. In so establishing itself at the center of the metropolis, at the cost of great sacrifices and considerable risks, the federation pursues many very important objects, of which the following are the most important:

- 1 - Place the Montreal market at the disposal of our sea products of Gaspé.
- 2 - Secure better remuneration for our fishermen.

- 3 - Dispense with useless middlemen in the fish trade.
- 4 - Improve the distribution of products and ensure better quality and services to the consumer.

(1) Securing the Montreal market for our fishermen:

The first of the aforementioned objects is the most important for the future and the development of the fishing industry, and for the survival of the Quebec fishermen. Fishing, more than any other industry, requires a stable and permanent market, one that is as close as possible to our coastal establishments; for fish, for the most part, is now sold fresh or chilled; it is therefore, a commodity that does not keep well and whose transport and preservations are expensive compelling the fisherman to sell his catch within the shortest time possible. Until now, the Quebec fisheries have supplied only foreign markets: Great Britain, Italy, Portugal, the West Indies and the United States. The future of these markets, under present war conditions, has become very problematical. One recalls the incident of the economic sanctions against Italy, during the Ethiopian war of 1934, which closed to the Quebec fishermen their most important outlet, in the depth of an economic depression, plunging a great many families into distress and jeopardizing for a long time one of Quebec's most important resources. Our fishermen, who, in their cooperative study clubs, have studied their problems and learned to look ahead, do not want to ever see a recurrence of this experience.

Now, on the Montreal market, according to an investigation by the Department of Fisheries of Quebec, in 1937, the whole import and distribution trade of fish is in the proportion of 90% for the wholesale trade, and of 60% for the retail trade, in the hands of Nova Scotia companies and

foreign merchants. These companies obtain their fish from Nova Scotia fishing ports and even from foreign countries, whilst Quebec fish remains in storage or finds its way to distant overseas ports.

Here are the astonishing findings contained in a report on the conditions of our fisheries submitted to the government of the province of Quebec: "First, on our local market, the consumption is extremely low, being barely one-fifth of that of Great Britain. Moreover, for Quebec in particular, the consumption of our own fish, on our own markets, is still lower. Our yearly per capita consumption, in the province of Quebec, is 20 pounds only, whereas, in most of the European countries, it is up to 40 and even 60 pounds. However, we consume fresh fillets from Halifax, chilled salmon and preserves from British Columbia, smoked herring from Norway and canned crabs from Japan. Even salmon, imported from Soviet Russia has been seen on the Montreal market. This situation presents a serious anomaly, is detrimental to our Quebec fishermen, who are unable to sell their products, injurious to the Montreal consumers, who have to pay additional transportation costs, customs duties and profits, besides paying for the product itself. In establishing themselves on the Montreal market, the United Fishermen of Quebec work toward the righting of an economic situation, unfavorable to all our people, and the recovery of a market which is theirs.

(2) Secure a better remuneration for the fishermen of Quebec:

This is, in fact, a very considerable price spread between what the fisherman receives for his products, and what the city consumer pays for the same product. The report of the Royal Stevens inquiry, in 1935, contained

revelations on the subject, that are most interesting, and far from edifying. Here is a list showing the spread of prices, between the producer and the consumer, of cod and haddock fillets, shipped to Montreal, for the Nova Scotia distributors, during the first week of October 1934 (Stevens Report, page 192).

Cod Fillets	Per pound
Price to the producers	3.26 cents
Price to wholesalers	10.0 "
Price to retailers	13.0 "
Price to consumers	18.0 "

If one considers that, according to the same report, fishermen were receiving from the distributor only 1 cent to $1\frac{1}{2}$ cents a pound, for unprepared cod, and that cost of transportation, from Gaspé to Montreal, of chilled fish, may vary between $\frac{3}{4}$ and 1 cent a pound, one may easily figure out the enormous waste resulting from an ill-organized distribution.

Now, during this same period, here is, according to the evidence at the same inquiry (Stevens Report, page 184) the distressing situation of most of the fishermen of eastern Canada: "Evidence submitted by competent witnesses indicates that the earnings of the average fisherman in the different localities of eastern Canada for the year 1933 ran from \$75 to \$400, according to the district in which the fisherman worked, and that there would not be more than 10 to 15% improvement in earnings in 1934."

(3) Dispense with useless middlemen in the fish trade:

As may be already seen, one of the most beneficial results of the establishment of a cooperative branch in Montreal, will be the elimination, in the fish trade, of a certain number of useless middlemen, who live at the expense

of the producer and consumer, realizing, without productive work, enormous profits and constituting one of the worst defects of our present economic system.

To quote again from the report of the Stevens Commission (page 187), here is the set up, with respect to the middleman, in the fishing industry: "The usual, although not exclusive, practice in the industry is for the fisherman, who must be considered as the primary producer, to sell his catch to local distributing companies or dealers, a number of whom operate at important fishing centers along the Atlantic sea coast. These distributors, where necessary, process the fish and sell to the wholesale operators either in the Canadian or export markets. The wholesalers relay the product to the retailers, who in turn sells it to the consumer."

The United Fishermen thanks to their well planned cooperative organization, will bring about the disappearance of a goodly number of companies and dealers who bought fish since the fishermen now sell their catch through their cooperative; they no longer will rely on the broker who, previously, without even a look at the product, received a 10% commission for his services; thanks to the Montreal establishment, they will be able to dispense with the wholesalers; they will sell direct to the small dealers, to educational institutions and to religious congregations; they will thus remit to the fisherman a higher percentage of the sale price of his fish.

(4) Improve the service and the quality of the product:

The cooperative organization of the Quebec fishermen is based on two principles, which constitute an excellent guarantee for the Montreal consumer: First, by fixing as the first object of the cooperative system, service, instead

of profits, it prevents all attempts to defraud and all tendency to excessive gains; secondly, by placing the movement on a steady basis, it replaces the incentive of competition, now a thing of the past, by a constant improvement in production and sale methods and an ever steady march towards progress. If one may rely on the report of the Stevens Commission (page 191), the consumers of the metropolis have had very little cause to congratulate themselves over the regime of the large corporations, either from the point of view of the fairness of their relations or from that of the quality of the products. "Evidence given by wholesale and retail fish dealers operating in Montreal and Toronto indicates that the handling of fish in retail stores in those cities is not uniformly satisfactory. With the exception of certain stores that are adequately equipped to sell fish, conditions in many of the retail outlets are so inferior as to cause a limitation upon the public demand for this product. A majority of those that peddle fish from door to door in trucks or wagons sell fish of an inferior quality and under conditions of handling that would be improper for products of even a less perishable nature."

"Conditions existing in the retail markets present one of the reasons for the relatively low per capita consumption of fish in Canada."

The United Fishermen, through their Montreal organization, propose to control, themselves, the handling of their products and to ascertain, if necessary, the sanitary conditions of retail shops selling their products. Their very modern plant, indeed, enables them to retain in the Quebec product all its flavor and value.

The Quebec fishermen propose to secure outlets, not by means of dishonest practices and deceitful publicity, but

through the quality of their products. They will be in a position, through their Montreal establishment, to ascertain the tastes and preferences of the consumers of the metropolis, and to offer them a genuine Quebec product of a higher quality, for, in the opinion of experts, they are ideally situated to supply fish of the highest quality: the fishing regions of Quebec are very close to the coasts, so that fish caught in the morning can be shipped and placed on the market in Montreal the following morning, in a better condition than would be possible for any other regions of the country.

The cooperative organization will also enable them to do away with certain dishonest practices to which the Stevens report calls attention (page 191) "We were advised by wholesale and retail fish dealers that there has recently been a definite tendency on the part of some retail dealers to misrepresent not only the quality but the class of the fish retailed. It seems to have been established beyond dispute that cod fillet are frequently sold as haddock fillets, and that in some stores even have fillets sold as haddock. We were also advised that imported salmon is sold as Gaspé salmon, and that the practice is to dispose of flounder as lemon sole"

The cooperative market of Montreal should also serve to stabilize prices: it often happened, indeed, that the Nova Scotia companies, which control the Montreal market, flooded the market, at the height of summer heat, with a product of inferior quality which they sell at a loss, to the detriment of the Quebec fisherman forced to dispose of his catch during that season; in winter time, those same companies, lacking competition, raise their prices to a prohibitive level and, in turn, exploit the consumer. From now on, the Quebec fishermen will be enabled to place the surplus of their summer catch in storage, and to supply the

consumer, the whole winter long, with an excellent product, at a reasonable price.

(c) Dealings with non-members: In order to retain its customers, especially on the Montreal market, the federation finds itself compelled to supply it regularly with certain products, such as, shrimps, scallops, Great Lake trout, etc., it cannot obtain from its members. These operations represent about 5% of its total turnover and yield small profits. Apart from these special products, the federation deal only with affiliated locals

(d) Profits and Patronage Dividends: The locals pay the federation a 5% commission on the sale of fish products, with the exception of luxury products, such as, salmon and lobster, on which it pays a 2% commission only; it also pays a 2% commission on all supplies and fishing gear. Therefore, profits accrue from such charges and also from the difference between the processor's price paid to locals, and the wholesaler's price or the retail price secured through the Montreal organization. Such profits do not constitute either a profit as they are refunded to locals at the end of the year in proportion to their transactions. For the last two years, these patronage dividends amounted to \$49,652.12.

(e) Reserves: Considering the greater risks imposed on the central body by its selling agency, the locals agreed to put in the reserve fund an amount equal to 15% of their net profits. Such a reserve, as well as the locals' reserve, constitutes a collective property for the fishermen-members, and guarantees the stability and the permanency of their undertaking. This reserve fund amounts actually to \$9,236.60.

old system of large companies and of trade on a profit basis was absolutely ineffective and unable to save the industry from disaster and abandonment.

Much more interested in securing a sufficient margin of profit rather than in improving the industry and above all the fisherman's living standard, these companies were bogged down in an inconceivable routine. Up to 1935, after all the countries of the whole world had transformed their whole industry, the Quebec fisherman was still operating as in Jacques Cartier's time, angling with rod and line, and sticking to salted and dried codfish. Moreover, right in the middle of the twentieth century, they were still following the "barter" system.

They proved their superiority in the first place from strictly economic standpoint. In 1938, the Gaspé fisherman received \$1.40 for 238 pounds of headless and emptied codfish, and that the form of goods sold at profits ranging from 40% to 100%. As early as 1939, the cooperatives realized more than \$3.00 for the same quantity of fish and the price of fishing gear dropped on an average 40%. In 1943, the organized fisherman received \$5.80 per hundred pounds for his codfish, while the average price paid by the companies was \$4.20. And that does not take into account reserves and accumulated surplus. Merchants do not admit easily their inferiority with respect to cooperatives. It is a significant fact, however, that up to 1941, most merchants were claiming that they could not compete with cooperatives because the latter were not making enough provision for depreciation and reserves, and three years after, they claim that it is because they make too generous provision for such purposes. The truth is that the cooperatives do not have to worry about the profit element, and that they are more

efficient because they get more easily the cooperation of those who are primarily interested, the fishermen!

But the influence of the United Fishermen of Quebec by far transcends that wielded in the economic field; it reaches out into the social and civic field by repercussion. The organized fishermen have become the masters of their economic destiny and by that very fact they have become better citizens.

They now face the future confidently, and strong in their experience of labour in common, they are now studying together the means of further improving their production and transforming their industry, their region and their population into an asset for the country, instead of being as in the past a millstone around the neck.

- V -

Conclusion: Fishermen's cooperatives in the province of Quebec are not born of chance or whim. Recommended by several commissions of inquiry and approved by independent authorities in the economic and social field, they were created to avert a disaster.

They developed thanks to the effective sympathy and help of public bodies, at their wits' end before the obvious futility of grants and direct relief.

They have definitely established their superiority over ordinary trade in this industry and they have given anew to the fisherman the hope of earning honestly a modest competency with his hard calling.

Fishermen do not like to live on public charity. To be in a position to dispense with it, they have made enormous sacrifices by depriving themselves of part of the value of their catch to ensure the permanency and the stability of their cooperative enterprise by creating substantial reserves

for themselves. They consider that a taxation plan which would actually jeopardize the existence of an organization established at the cost of so many sacrifices and so much self-devotion would be an anti-democratic, anti-economic and anti-social measure.

Pêcheurs-Unis de Québec
(United Fishermen of Québec)
Gaspé - Montréal.

BY MR. BEAUREGARD:

Q. I understand you have filed with the members of the commission the annual report of the United Fishermen of Québec for the year 1943-44, with a copy of its constitution? A. Yes.

Q. Turning to the first page of the Annual Report, I notice there are 23 affiliated locals? A. That was at the end of 1944; the number has increased by now, there are 29.

Q. Now, can you tell us what is the proportion of Gaspé fishermen among the members of local cooperatives? Can you tell us that? A. At the present time, in Gaspé, around 80 per cent.

Q. The cooperatives represent about 80 per cent of the fishermen? A. Yes, of Gaspé fishermen.

Q. Do the fishermen who do not belong to cooperatives do business with the cooperatives? I mean, do you sell their products for them if they are not members?

A. To my knowledge, no; there may be a few exceptions.

Q. But it would be an isolated case? A. Yes.

Q. As a rule, the cooperative accept on consignment and sell only the products of their members? A. Yes.

Q. Can you tell us if the locals sell the non-members all kinds of fishing tackle and other things they generally

sell to their own members? A. There again, there may be some isolated cases, but it is not the general practice.

Q. What kind of firms transact the business of non-member fishermen? Are they the old firms that used to trade in Gaspé? A. They are the old firms, with a few individual traders.

Q. Does the United Fishermen Cooperative maintain a warehouse in Gaspé? A. Yes.

Q. What is your general procedure? Is the fish kept for a long time in the warehouse before it is sold or is shipped as soon as possible to Montreal. A. All the Gaspé cold-storage plants belong to the provincial Department of Fisheries and are made available to our cooperatives for a fee.

Q. It is therefore a service the locals do not have to provide; they use warehouses already built and maintained by the Department of Fisheries of the province? A. Yes; but these warehouses are not big enough to store all the catch during the fishing season; they must be cleared as more fish comes in.

Q. Where do you send the fish when you take it out of the warehouse? A. The product goes directly to market or part of it is stored in Montreal and part of it sent directly to market.

BY MR. BROSSARD:

Q. Do I understand this brief was prepared by yourself?

A. Not alone; in collaboration.

Q. With other members of the United Fishermen?

A. With other members of the executive, of the United Fishermen of Quebec.

Q. Has it been submitted to the executive of the United Fishermen? A. Yes, and to the board of directors. All the directors received a copy.

Q. The directors only? Have you sent copies to the various subsidiaries? A. To the directors only.

Q. Therefore, to the members on the board of directors? A. Yes.

Q. It was approved by them? A. Yes.

Q. And each of them takes full responsibility for all statements and data contained in this brief? A. Yes.

Q. Could you, however, tell us from what source you have taken a certain number of statements contained in your brief and particularly the passage of Chapter 1 which says: "It is an established fact that if one does not take war periods into account, the fisherman of Quebec is the most ill-paid in the world." On what do you base that statement? A. On the statistics of the provincial Department of Fisheries and of the Dominion Department of Fisheries.

Q. Have you any particular ones to which we can refer? A. These figures are taken from Mr. Louis Berube's book: "Coup d'oeil sur les pecheries de Quebec."

Q. When was it published? A. It was published in 1940 or 1941, and Mr. Berube took those figures from the statistics.

Q. He gives the reference himself and it is the source of your information? A. Yes.

Q. I notice that in several places of your brief you refer to the Report of the Stevens Inquiry Commission? A. Yes.

Q. And that you quote widely from it? A. Yes.

Q. Can you tell us if the economic conditions of which the Gaspé fishermen may have complained at the time of the Stevens inquiry are still the same to-day, or, since when and why have they changed? A. The Stevens inquiry took place at the worst period of the depression. The situation

has certainly changed since then.

Q. Can it be said that it has radically changed since then? A. Yes, one might say so.

Q. Entirely? A. Pretty much so.

Q. Not only with regard to conditions in Gaspé but with sales conditions of the products in Montreal and the province?

A. Yes.

Q. It would be unfair to state that competitors of the United Fishermen in Montreal are resorting nowadays to methods closely resembling fraud? A. It is still being done.

Q. Will you tell us what is the basis of your statement. You are expressing your own opinion. You must weigh your words. You claim that fraudulent methods are being resorted to nowadays. Will you tell us what are those fraudulent methods you are complaining of? A. It is a well known fact that codfish is sold for haddock on the Montreal market. It is well known fact that Gaspé salmon is served in Montreal hotels during March or April when there is no Gaspé salmon on the market. It is British Columbia salmon labelled "Gaspé salmon".

Q. Have you personal knowledge of that? A. Yes.

Q. Have you often ordered, in Montreal hotels, salmon labelled Gaspé salmon when you knew it was not? A. Yes.

Q. Was it called fresh salmon or canned salmon?

A. On the hotel bill of fare it was called fresh salmon.

Q. Are you in a position to state that it was not canned Gaspé salmon? A. Yes, because Gaspé salmon is not canned.

Q. Not canned by the cooperative or by the other fish dealers? A. At least, not on a commercial basis; a few cans, maybe, but not to my knowledge.

Q. Does not the cooperative buy canned salmon from

Magdalen Islands? A. Not salmon.

Q. Does it buy lobster? A. Yes, lobster, a few cases to supply our clients.

Q. Apart from these unfair practices you have just mentioned, can you state positively that there are any others which still subsist on a big scale, because you say "The fishermen of Quebec want to win their markets, not by unfair methods and misleading publicity. I would like to know what reasons you can give in support of your statement.

A. I have mentioned the chief ones.

Q. Can you state that there is still at the present time misleading publicity or that there may have been in the past?

A. I claim that certain companies are still doing some in the city of Montreal.

Q. Is it exceptional or general? A. I would not say it was general; it seems to be a practice generally admitted by fish companies.

Q. What practice? A. The practice of selling codfish for haddock and calling salmon Gaspé salmon when it is not.

Q. Those are the unfair practices on which you put the most emphasis? A. Yes.

Q. And at the same time you claim that it is misleading publicity since the product is not what is advertised?

A. Yes.

Q. Do your 29 local cooperatives sign a contract with the United Fishermen when they become affiliated? A. There is no hard and fast contract.

Q. I have a copy of it here. A. It is what we call the affiliation contract. It is merely a resolution of the board of direction of the local applying for affiliation and in the said resolution they agree to accept our by-laws, and our constitution, that is the constitution of the central

organization.

Q. The contract is merely an undertaking to observe the by-laws of the central? A. Yes.

Q. Do your by-laws provide for payments to be made between the central and the local organizations, payments to be made between the central and the locals for the sale of fish? A. Section 24, paragraph 4, says "The Federation undertakes, etc."

Q. I understand that you act towards your subsidiaries in the same way as the subsidiaries act towards their members, namely, you advance money regularly? A. Yes.

Q. The subsidiary, on one hand, advances money each week to its fishermen? A. Yes.

Q. According to the size of the catch brought in by the fisherman? A. Yes.

Q. And the central, on the other hand, advances an equal sum to the subsidiary? A. That is, in nearly all affiliated subsidiaries, all the financing is done by the central, but handed out through the local.

Q. So it is the central which advances to the subsidiary the money the latter needs to finance the fishermen? A. Yes.

Q. Would you tell us how the weekly advance made by the subsidiary to its members is determined, what is it based on? A. It is set by the board of directors of the central and based on the probable sale price of the fish.

Q. On the current price. A. The average price, the current price of fish, having regard also to the cost of living since this advance is given the fisherman to enable him to live on a cash basis until his fish has been sold. We take into account the cost of living, at the figure the fisherman considers as an average, and we take into account

our facilities for obtaining money.

Q. When you say you take into account the cost of living, how do you determine the fisherman's cost of living? Is the cost determined by himself, at his own discretion, or have you any particular and fixed basis to figure this cost of living? A. There is no fixed mathematical basis; the basis is determined by our discussions with the fishermen.

Q. Is the advance the same for all? A. Yes, the same basis applies to everybody.

Q. Is it on a basis of so much a pound? A. So much per hundred pounds.

Q. Taking into account too the quantity of fish sold? A. Yes, the variety.

Q. It is exactly the same for everybody? A. Yes.

Q. You submit that it is fixed under an agreement between the cooperative and the fishermen themselves?

A. I beg your pardon, it is determined by the board of directors of the central body. Now, the directors of the central body who decide upon that advance are the representatives of the locals; they are fishermen themselves, but there is no direct consultation with the locals to determine the advance.

Q. Neither with the local nor with the fishermen?

A. No, except through the board of directors.

Q. The amount of the advance, this percentage, is determined -- I would not say arbitrarily -- but only by the board of directors of the United Fishermen? A. Yes.

Q. And you submit that, in determining the amount of the advance, the board of directors take into account the conditions of the market and the cost of living. How can they take into account the cost of living?

A. The board of directors which determine that advance is

composed of fishermen who themselves are engaged in fishing and who personally know how much it will cost them to support their family or the average fisherman's family during one month or one week. Those fishermen who have 18 or 20 or 25 years of experience, are on the board of directors which knows roughly what will be the catches of fish of their fishermen, from such to such period, bearing in mind the experience of previous years, and thus the board of directors is in a position to figure quite rightly what would be required as an average advance by the average fisherman, because there are big and small fishermen, to live without running into debt, to buy for cash during the season.

Q. The advance is determined first according to the market price at the selling place and to the amount of fish delivered each week by the fisherman. Therefore, the amount which the fisherman is to receive will vary in accordance with the amount of fish caught by him and the market price in Montreal? A. Yes.

Q. How is the cost of living taken into account if the fishermen comply with those two factors?

MR. NADEAU: In short, you finance out of the patronage dividends which you hold back for a certain period, the patronage dividends which you keep for a certain period instead of giving them to your locals, to help them to finance?

MR. BEAUREGARD: I think that at the time they have not received payment for the fish; the fish is not sold, it is not caught.

THE WITNESS: When advances are determined, the fish is not caught yet.

BY MR. NADEAU:

Q. You are making advances before the fish is sold?

A. Yes.

BY MR. BROSSARD:

Q. Even before it is caught, you make a weekly advance?

A. The advance is made by the central body before the fish is brought in.

Q. By the local cooperative to its members?

A. The advance is made once a week on the fish they will catch during the week.

BY MR. BEAUREGARD:

Q. There are two kinds of advances; one of them is intended to support the fisherman until his fish is sold?

A. Yes.

BY MR. BROSSARD:

Q. As a matter of fact, does the member of the local cooperative get at any time from his local cooperative otherwise than by way of a patronage dividend an amount exceeding the weekly advance made to him by his local? In other words, besides that weekly advance made to him by his local, what are the other amounts the fisherman receives from his local? A. He receives those advances during the fishing season, and when this season is over, he gets his patronage dividend.

BY MR. BEAUREGARD:

Q. The difference between the selling price and the amount the fisherman has received already? A. Yes.

BY MR. BROSSARD:

Q. How is that patronage dividend determined?

A. At the local, after the fish is prepared in the local and shipped or delivered to the central body, the local cooperative bills the central body at the average price of the processor. Then, the central body credits immediately this local for so many thousand pounds of such or such a kind of

fish at 17 cents a pound, for instance, and at the end of the year, you have on the one hand the advances made by the central body to the local during the season, and on the other hand, you have the fish billed by the local to the central body at the average price during the season. The difference between the two represents the amount due to the fisherman.

Q. The amount due over and above the advances made by the central body is all distributed to the members of the local? A. Yes.

Q. I think that you have produced statements showing the amount of the patronage dividends paid to the locals during 1943 -- \$258,672? A. Yes.

Q. This represents, I think, a substantial increase over the previous years? A. For 1942, \$165,786.

Q. On the other hand, the reserves set up by the locals amounted to a grand total of \$12,896, in 1943? A. That is right.

Q. That is the whole of the reserves set up by your 23 locals, the total amount? A. Yes.

Q. Is it not a fact that in the same year the United Fishermen set up a much higher reserve for all the locals? I understand it amounts to about \$49,000 at the central body? A. It is not \$49,000; 15 per cent on the net profits of the central body, which amounted to \$61,577.39. Fifteen per cent of that sum gives \$9,286.60.

Q. That is a reserve set up by the central body? A. Yes.

Q. Do you know for what purposes those reserves of the central body on the one hand, and those reserves of the locals on the other hand, are intended? A. Most of these reserves, at the present time, are invested in buildings; but they are

set up particularly to cope with future difficulties. The fish trade is unquestionably one of the most dangerous. We have to deal continually with a perishable product and the fish markets are always most ticklish. As soon as the slightest change takes place in the general conditions of economy, the fish industry is usually the first one to suffer. You have to do with an industry or business that is extremely ticklish and dangerous. That is the reason why fishermen understood that it was essential to set up reserves.

BY MR. NADEAU:

Q. You do not charge any interest on advances made to members. When advance is made by a local on future production, do you charge any interest? A. No, but the central body charges an interest to the local.

BY MR. BROSSARD:

Q. What is the price policy for the competitors in the Gaspé district? Do the prices they pay compare fairly with yours? A. Last year, the average price paid by fish companies to their fishermen in the province of Quebec was \$4.20, according to the statistics furnished by the Department of Fisheries, while, as soon as their patronage dividends were paid to them, the organized fishermen received last year an average of \$5.80.

Q. There would be a difference of \$1.60? A. Yes, a difference of \$1.60 per 100 pounds.

BY MR. NADEAU:

Q. You refer to the elimination of middlemen. To what extent do you suggest they should be eliminated? A. Maybe the word eliminate is a little strong. That is to say that with the cooperative organizations as envisioned by the organized fishermen, you are bound to see a number of middlemen in the fish industry disappear. For instance, before we

established ourselves in Montreal, there were brokers there who undertook to sell a certain amount of Gaspé fish, for which service they charged about ten per cent. Therefore, here is a middleman who is cut off with the cooperative organization of fishermen, that is to say that it disappears automatically. You are not wiping him out, but it disappears.

BY MR. BROSSARD:

Q. Don't you think that the cooperative itself is an intermediary between the fisherman and the consumer?

MR. BEAUREGARD: It is a question of principle.

THE WITNESS: Besides, I say in my statement; "unnecessary middlemen".

BY MR. BROSSARD:

Q. You consider that it is the cooperative that replaces the other middleman? A. Yes.

BY MR. NADEAU:

Q. You are not suggesting that the cooperative replaces the necessary middlemen? A. Not at all.

BY MR. BROSSARD:

Q. You said a little while ago that the local billed the central body at the processor's price? A. Yes.

Q. Does the central body itself sell only to wholesalers or the retailers? A. That depends a little on what you mean by retailers. On the Montreal market, here, the United Fishermen of Quebec sell to the retailers.

Q. Are they not selling to the wholesalers? A. Yes, we sell to wholesalers in Montreal.

Q. At different prices? A. Yes.

Q. Do you also sell to consumers, that is at a retail price? A. Casually, in very small amounts.

Q. The price to the consumer is of course higher than the retailer's price, which in turn is higher than the

the wholesaler's price? A. Yes.

Q. Who takes advantage of the difference of prices when the sale is made to the consumer instead of the wholesaler? Is it the central body or the member of the local?

A. Directly, it is the central body; indirectly, it is the member of the local since the profit is returned to him.

Q. Are all those profits returned to him? A. Yes.

Q. How? A. Through the reserve.

Q. Through the reserve? A. Of both, since 15 per cent goes in the reserve.

Q. I would only like to ask two other questions. The fishermen of Gaspé who are members of the cooperative continue to fish? A. Yes.

Q. At the present time, have they any difficulty in disposing of their catch? A. The fishermen themselves?

Q. Yes, the fishermen themselves who are not members of your cooperative? A. No, they experience no difficulty.

Q. Are they selling at about the same terms as your own members? A. About, except that they are paid less.

Q. They receive less than your members? A. Yes.

Q. But on the whole, their situation has materially improved in comparison with what it was in 1935?

A. A great deal, and I think that they admit that it is due to the cooperative.

Q. Would it not be due to the war? A. A little, but rather comical situations developed at the outset, even with the war; thus it is that at the present time, fish companies in Gaspé pay patronage dividends to their members because they have been forced to imitate the cooperatives.

BY MR. BEAUREGARD:

Q. Is it not right that the war has closed some markets to you; the Italian market, for instance?

A. For dry codfish, yes, the war has closed that market; however, with the organization of the Combined Food Board, there is a great demand for our salted and dried fish; we have no difficulty in disposing of it.

BY MR. BROSSARD:

Q. It follows from your balance sheet that at the end of 1943 the central body had a total surplus of \$131,896?

A. Yes.

Q. On the other hand, it also appears from the information given in your booklet, that the locals themselves had reserves amounting to \$12,896? A. Yes.

Q. Moreover, it appears that your locals had a surplus totalling \$289,162? A. Yes.

Q. I notice that, in the balance sheet of the central body, there is on the liabilities side and under the heading "Current liabilities", the item "Due to the fishermen syndicates, \$188,659". Is that amount already included in the surplus, either in the patronage dividends of the locals, or apart? A. It is included in the \$289,000 of the locals.

The commission adjourned until 2:15 p.m.

AFTERNOON SESSION

The commission resumed at 2.15 p.m.

THE CHAIRMAN: I understand the next case will be L'Alliance des Cooperatives de Consommation.

MR. BEAUREGARD: I believe that the commission is supplied with the French text and possibly a resume in English.

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Re: L'Alliance des cooperatives de consommation

VICTOR BARBEAU

residing in the city of Westmount, at 109
Cote St. Antoine Road, being sworn on the
Holy Evangelists, deposes:

BY MR. BEAUREGARD:

Q. Mr. Barbeau would you tell us what are your occupation and qualifications? A. Professor at l'Ecole des Hautes Etudes Commerciales.

Q. Of what subjects? A. Languages and political economy; president of l'Alliance des Cooperatives de consommation, president of La Familiale, a consumer cooperative of Montreal.

Q. Are you not also the author of several books? A. Yes, if it is a title. I wrote several books on economic problems: "Mesure de notre taille", "Pour nous grandir", and very recently, a book on the cooperative system, entitled "Initiation a l'humain".

Q. Where could we get those books? A. I will be very pleased to present them to the members of the commission.

Q. I understand that you have prepared the brief which, in accordance with the rule set, has already been submitted to the commission. I would ask you to read it and, whenever you will see fit, make comments which will serve as additional information. A. Yes, sir.

L'ALLIANCE DES COOPERATIVES DE CONSOMMATION

6381 St. Lawrence Street,

Montreal.

"Brief submitted by the consumer sector of the province of Quebec to the commission of inquiry on taxation of cooperatives.

A) On account of both their object and the means they take to attain it, consumer cooperatives do not consider themselves

commercial undertakings and, consequently are not subject to the War Income Tax Act pursuant to Section 4 (e) of the said act.

"Fundamentally and essentially, consumer cooperatives are educational undertakings. Everything, economics included, is conceived, established, coordinated in terms of the setting of a new order which requires a sustained, methodical teaching of moral and political sciences and, also, of all other things which collaborate to enable the man to fully exercise his rights and his duties. It is contrary not only to the principles of corporation but also to the already one hundred years old practice of consumer cooperatives, to see exclusively in them organizations whose object is the satisfaction of the needs of their members through cooperation, charity. At first sight, such is the case but they will not stop here. They intend securing a greater measure of justice in economic dealings by setting fair prices. In doing so they answer a call made by the prophets of Israel, the canonists of the middle ages and which was repeated all through the ages.

"It was understood by the pioneers of Rochdale who added to their name the surname of 'just'. What did they mean? They meant that cooperation was not only for them a means of improving in the field of exchange as well as in the field of production and distribution of wealth. According to Charles Gido it is a revolution in the moral as well as in the material field. The fair price would eliminate, no doubt, falsehood, fraud, falsification, spending urge, excessive price increases at the expense of the consumer. Made fully effective, cooperation would involve the end of the profit system as sole motive of economical action and would replace it by the only concern of

satisfying needs.

"How can one strive for such an ideal without previously educating, enlightening the minds. Consequently, for the past one hundred years, it is above all educational training that consumer cooperatives have been carrying out.

"1) Even before being legally constituted, they have to gather a nucleus of citizens willing to devote themselves gratuitously to the advancement of their fellow-citizens.

"2) Once established, along with their economic action, they pursue the following course of moral and social order:

- 'a) They have study societies which meet, on an average twice a month.
- 'b) In those societies are discussed not only co-operative principles but every question of general interest. During the meetings the members discuss political economy, social economy, good citizenship, sanitary conditions of food. Since the start of the war, compliance with regulations on rationing and saving has been urged.
- 'c) Such civic formation is complemented by a monthly publication *Le Coopérateur*. Edited gratuitously, distributed gratuitously to the members, it represents to-day an expense of \$2,322.63.
- 'd) Apart from that publication there are pamphlets and books. A single cooperative, the oldest one, it is true, has already published and distributed more than 30,000 of them.
- 'e) Apart from the regular meetings of the study societies, the cooperatives organize periodically lectures on varied topics.
- 'f) They have also free libraries.

- 'g) For the younger generation, the cooperatives have organized undertakings of the highest moral achievement. The first one was the creation of free libraries. We may mention, for instance, the library of La Familiale which has about 5,000 books and two hundred readers recruited among the children most lacking in all healthy and instructive recreation.
- 'h) They founded summer colonies where, for a nominal fee, children of poor families or of limited means are able to recuperate, regain their strength and health, under the supervision of competent and devoted persons; learn habits of order, cleanliness, initiative and good citizenship. This annual expenditure amounts to \$850.
- 'i) From autumn till spring, they have once a week, again for the younger generation, recreative and educative meetings involving organized games, dances, songs, reading, by well known writers, of tales and legends.
- 'j) To some, the cooperatives give free drawing lessons; to others, weaving, odd jobs, sewing and gardening lessons;
- 'k) Finally they organize excursions to the countryside and, on the occasion of New Year, they distribute clothing, sweets and toys to the children.'

"In spite of all that, the cooperatives are far from doing for the children what they wish and what certain countries, France, Belgium, for instance, have done. In France, they have established large institutions, some for children predisposed to tuberculosis, others for healthy children, such institutions are camps either in the

mountains or at the sea side. Each year, between 300 and 500 children are admitted free. All those services, those cares, that contribute to the intellectual, moral and physical advancement of the adults and children, are supplied by the cooperatives with their own means, out of their profits, without soliciting the help of the State, without appealing to public charity as it is the case with all benevolent associations. They feel warranted in calling themselves associations of education and, I would add, of good citizenship.

"B) Consumer cooperatives are voluntary and free associations of consumers of all categories governed by the Cooperative Syndicates Act R.S. (1909) 6762. By their nature and their terms and conditions they are absolutely different from the commercial enterprises. Here is the difference:

"1. They are dealing with their members only, that is to say with those who have subscribed the minimum numbers of shares required or with those who wish to be well informed on the system before becoming members. The profits from the sales made to the latter are automatically and rigorously credited to the reserve.

"2. They sell at the market price and the profits resulting from such sales are divided at the end of the year, between the members to whom the sales were made according to the pro rata of the purchases of each one. The capital has nothing to do with the distribution of profits. Consequently it is not a dividend but a refund as we will see it later on.

"3. The price of the shares of the consumer cooperatives never varies. It is set at the outset and does not fluctuate.

"4. Each member is entitled to one vote regardless of the number of shares he holds. Consequently the cooperative is truly a collective property, that is to say that it belongs

to its members.

"5. The board of directors as well as the different committees are elected by the members and the board is responsible to them. The directors are not remunerated, they give their time free and, I could add, spontaneously.

"6. It is also the members who set the amount of overpayment to be refunded to them. The only privilege of the board in that respect is to advise.

"7. All the members regardless of the number of shares they hold, are eligible to serve on the board and there is no restriction to their election.

"8. A minimum capital investment is required and no interest is paid on it. All other capital investment above the said minimum carries interest at a limited rate.

"9. The sales are on a cash basis. To help those who may need credit, the cooperatives set up organizations, such as the Provident Fund, which, subject to a small contribution, enable such persons to secure the goods they need.

"10. By setting a fair price, through the patronage dividend, the cooperative lowers the cost of living.

"11. It tends to stabilize prices, particularly in districts remote from large centers, in preventing merchants from selling at higher prices than its own.

"12. Due to its dealings with a definite number of members, the cooperative is in a better position than any other enterprise to foresee the needs, hence to prevent waste. It prevents waste also by not inciting its members to spend as a result of highly publicized so called bargains.

"13. By creating economy without deprivation and hardship, it enables the common people to set aside savings and consequently to acquire property, source of economic security and peace.

"14. Finally having reached the field of production, the consumer cooperative puts the tools of production in the hands of the workers without expropriations and without spoliation. The coöperators will be their own masters and as they are also consumers, they will not take advantage of their position to abuse of their power.

"15. The cooperative creates not only individual savings but also collective savings used for enterprises of education, benevolence, moral and intellectual uplift: libraries, clinics, summer colonies, newspapers, periodicals, dwellings, etc., etc.

"Such advantages and many others cannot be disassociated from other services rendered to the community by the consumer cooperative. To mention the principal ones only:

"1. By admitting as members without distinction of race, creed, politics, nationality, all the consumers who so desire, using only persuasion and education to that end; it replaces the dispersal of people by cohesion and so contributes to make of our inorganic society an organic society in which everyone knows the part he is called upon to play.

"2. Due to the character of such an association, it suppresses antagonism resulting from conflicting interests. Instead of jealousy, envy and hatred, the members learn to work in a common interest, the general interest. They no longer feel frustrated, hurt, receiving their legitimate share of the wealth they create.

"3. Without depriving them of their freedom, the cooperative disciplines the individuals in that sense that it accustoms them to subordinate their particular interest to the general interest, to take into account the welfare of society, of the country. Consequently, it schools citizens in their duties, it develops the sense of responsibilities,

it teaches the respect of laws, and creates an atmosphere of mutual understanding, of solidarity.

"4. Above all it teaches the people not to rely on the state or on charity to live and develop themselves. It supplies them with the means of saving themselves, it gives them confidence, it frees them from the obsession of material insecurity, it restores them in their dignity by making them active citizens, conscious, capable alike of initiative and devotedness.

"C. In answer to the question asked at paragraph C, we must admit that it is impossible to make the least comparison between the activities of the cooperative and those of the capitalist merchants, because between both there are only points of difference, of opposition.

"1. In spite of appearances (the only things, alas, one considers, -- and the present inquiry more than ever will confirm my opinion -- the consumer cooperative is not a trade enterprise in the strict sense of the word. Its object is not to create profits but to serve. When the consumers get together to buy collectively what they need, they have service and not profit in mind.

"2. As far as trade is concerned, there must be an exchange, that is to say a seller and a purchaser. With regard to the consumer cooperative, the same person acts at the same time as seller and purchaser. The member sells to himself goods he has bought for his personal use and not with the intention of reselling them to others with a profit.

"3. No doubt, by selling at market price -- if I am allowed I would make a correction. I added 'as required by the act of the province of Quebec', it was a wish. Consequently we will delete the parenthesis -- the cooperative makes a profit. But it is a temporary overpayment agreed upon by

the members for the good administration of their association. They are fully aware of the overcharge they incur; they accept it with the assurance that, in the long run, they will only pay the right price. The patronage dividend would restore the momentarily disturbed balance. If need be, the cooperative could sell at cost price. It does not do so by reason of produce and farsightedness.

"4. This profit is not, however, a profit in the real sense of the word. If one can get for ninety cents an item which sells for a dollar, he does not make a profit. He simply saves ten cents. The patronage dividend is precisely the saving realized by members through centralization of their purchases. In cooperative parlance, it is called overpayment, the French terminology having, at all times, excluded the term 'dividend' in order to show precisely that this sum is in no way connected with the capital subscribed and is not a profit.

"5. Finally, the reserves set aside by the cooperative are not all of an economic nature. Before providing for a refund of the overpayment required of its members, it makes provision for the needs of education and welfare. It is only a non-distributed profit residue which is returned to the association in order to sustain and develop it. It may be important to note, at this stage, that, according to the laws of the province of Quebec, these reserves become unassignable collective property. I beg your pardon, there are different interpretations given to these sections of the act; it is not a legal interpretation. However, in any event, these reserves can never be distributed among the members. In case of winding-up, they can only be used for charitable purposes as may be determined by the council of ministers. From all the above, it follows clearly, in our opinion, that

there is no comparison possible between the aims and practices of capitalistic enterprises. Associations aiming at the eventual abolition of profit have absolutely nothing in common with associations whose very existence is devoted to the pursuit of profit by all available means. Accordingly, they should not be subjected to the same taxation treatment.

"With your permission, I shall recall, in passing, an opinion given by the learned French jurist, Leon Duguy, well known to most of you, to the effect that the law is not a relation of justice between things but a relation of justice between men, and that is precisely the trend cooperatism endeavours to maintain.

"No more than their other members of other provinces, do the consumer cooperators of the province of Quebec wish to shirk their duties and obligations towards the citizens of Canada. They have never asked for nor do they now ask for any favours, any privileges from public authorities. The task they have undertaken of their own free will, with their own means, their own capital, without any distinguished or public grants, is a task for the public welfare whose achievements shall by far overshadow all legislative measures aimed at the development and maintenance of democratic action. If really the state is anxious to safeguard the physical, moral and intellectual welfare of the greater number, nowhere except in the cooperative will it find a disinterested and vigilant assistance; the reason being that the aims of cooperators, contrary to those of capitalists, are similar to those of the nation.

"Profit is not the object of their activities. Naturally, they meet their own needs, and under the best conditions possible, but in doing so they do not prejudice the interests

of producers, of workers. While they think of themselves, they also think of others.

"In support of this statement, I shall remind you that, in Sweden, the fight undertaken against monopolies has benefited not only the members of cooperatives but the whole Swedish population, and this is the very legitimate ambition we ourselves entertain.

"It is not for themselves alone that they seek better living standards, it is for all individuals, including those who may never belong to any cooperative. The price fixed for the consumer, around which all economics must move, is likewise fixed for the owner of raw materials, the manufacturer, the farmer, the workingman, the employee. It is not they who will hamper trade, who will seek protective powers from governments, who will cause a scarcity of goods, who will even destroy them in order to prevent falling prices, who will try to get higher profits by even cutting wages, who will, finally, resort to open dishonest practices similar to those which have been found by the Price Spread inquiry, in order to become rich.

"All those allegations, and many others which are not mentioned, could be called utopias if they were not supported by a hundred years of experience throughout the world. Cooperation reigns in all countries of the earth. Everywhere, it has been opposed and everywhere it has triumphed. During depressions, like the war of 1914 and the present war, governments were forced to acknowledge that it was the only organization capable of assuring an adequate distribution of consumer goods.

"Shall we add that it is hardly probable that those who have been through the war shall willingly submit themselves to a system in which instead of being the factors, they would

merely be what they are to-day, the servants, the exploited. There is little probability, in our opinion, that they will consent to be governed by an anonymous and irresponsible financial oligarchy. To political democracy they have defended, they will want to add the essential adjunct which is economical democracy. But, cooperatism alone can make the latter possible. Therefore, we have confidence, Mr. Chairman, that the government of Canada shall not take any steps which might prejudice the Canadian cooperative movement. The wealth it has created with peaceful, legitimate and worthy means, is not one that benefits only a few. We have dedicated it to serve all the people, the whole nation and we shall so continue, come what may.

L'Alliance des cooperatives de
Consommation,

Victor Barbeau,

President.

THE CHAIRMAN: As there is no special fact, I believe the commission will accept it as an argument.

BY MR. BEAUREGARD:

Q. You have submitted this statement on behalf of l'Alliance des Cooperatives de Consommation. Can you give us an idea, as accurate as possible, of the number of cooperatives belonging to the alliance? A. In the province of Quebec we figure approximately - because it is always difficult to know exactly how many cooperatives are in existence - we figure on about 110 cooperatives; some say 125. In that number, there are more than 50 which are members of the Alliance des Cooperatives and some twenty others which, although they are not members of the Alliance, take advantage in a certain way of the educational and social services provided by the Alliance.

Q. What is the bond that connects a cooperative with the

Alliance? A. I might say that each cooperative, in order to belong to the Alliance, must pass a resolution by a vote of its committee, a copy of which I shall give you, which constitutes its affiliation with the Alliance.

BY MR. NADEAU:

Q. May we have a financial statement? A. Yes, I have one.

BY MR. BEAUREGARD:

Q. Are the services rendered by the Alliance educational services properly speaking, or economic, or both?

A. They belong to two categories. The Alliance is composed of three organizations: an organization which is educational and which takes charge of cooperative education amongst consumers; another organization deals with the auditing of books. Thus, a few days ago, we adopted a standard form, which means that eventually all consumers' cooperatives will do their bookkeeping uniformly; and, lastly, there is an organization in charge of purchases. This organization deals directly on behalf of consumer cooperatives and exclusively in the matter of purchases to be made.

Q. What practice obtains in the case of the affiliated cooperatives? A. Each cooperative member of the Alliance sends its orders to the Alliance; the director fills the order at the market price and then, at the end of the year, if there is a surplus accruing on all these purchases, it is distributed among all who made such purchases.

Q. Operations are always one-sided. Upon the whole, the Alliance sells to the affiliated cooperatives and receives nothing from them except payment for its goods?

A. No.

Q. Because affiliated cooperatives do not deliver?

A. No, they are operations made by the Alliance on behalf

of its members.

Q. As to the net revenues received by the Alliance consequent to such operations, to what use are they applied?

A. They are as you see them in the statement: these profits, at the end of the year, are distributed among all who have made purchases, in the ratio of their purchases.

Q. The whole of them or is there something left to the Alliance? A. Obviously, the Alliance has to live....the whole of them after providing for payment of overhead expenses.

Q. Are these overhead expenses closely figured out or are they calculated on some approximate basis represented by a certain percentage? A. Very strictly, very mathematically, so as to permit the cooperative to buy at the best possible price.

Q. No, I understand that besides being the president of the Alliance, you are the president of La Familiale?

A. Yes, and it is the ancestor of consumers' cooperatives.

Q. Have you any by-laws? A. Yes, here they are.

Q. La Familiale is the master-cell? A. As it so happens.

Q. La Familiale has its office in Montreal? A. Yes.

Q. Can you now tell us what takes place, in concrete, between the members and the affiliated as to the purchase and sale of merchandise. A. You mean La Familiale?

Q. Yes. A. La Familiale is organized as an ordinary business firm; that is all it has in common with trade, the appearance. It owns a building, shelves with goods on them, and clerks and these clerks are also members. Therefore, the consumers, who have constituted themselves into an association, have delegated into a board the power to buy on their behalf the goods they need. The shelves are always well

stocked and whenever a consumer wants a pound of coffee or of bug powder, he gets it at this store. Every six months, a balance sheet is prepared and the results of this business period is submitted to the general meeting and, there and then, a surplus or a deficit is shown. After the next six months, the annual statement is tabled and if a surplus is found, it is distributed among the members, but only after having made provisions for the expenses I mentioned a while ago. Now, I shall explain how the surplus is distributed. We provide for two sets of reserves; in fact, we provide for three: one is called the statutory reserve, which is not mandatory in the case of consumers' cooperatives; it is a precautionary measure, it is a safety valve; it is mandatory in the case of People's saving banks (Caisse populaires). We have adopted it for the sake of establishing a certain solidarity in the enterprise.

Q. You make this distinction because your origin is based on the same statute under which the Caisses populaires (People's saving banks) are established and because certain provisions of the said statute may, in your opinion, affect certain groups and certain other provisions may affect another group. Do you believe that you are not bound by these provisions? A. Yes, therefore, we have a statutory reserve in which we place 5 per cent of our net profits, then we have the welfare reserve in which we place 10 per cent of our net profits and the balance is distributed among members in the ratio of their purchases.

THE CHAIRMAN:

Q. I believe you stated in your brief that there is no discrimination against race, religion and language or other things. At the second paragraph, you state "Founded by French-speaking citizens, the Alliance only recognizes the

French language as official". A. This is not a discrimination against races, it is an efficiency measure, it is for the purpose of expediting our proceedings and in order to avoid the necessity of translation. We have many English-speaking members; when they join us, they agree that all discussions shall take place exclusively in French so as to avoid the necessity of translating and publishing a French and English text; but it is not a distinction as between races.

BY MR. BEAUREGARD:

Q. You say that out of your surplus profits you apportion 5 per cent to the statutory reserve and 10 per cent to welfare; and what about the balance? A. The balance belongs to the members. If during the year, we have earned 2%, the members are the only ones who can say how much they shall receive. If they wish La Familiale to pay them the whole 2% they can demand it. More often than not, they do not require the full amount, they say: "Let us set a little money aside". The proof of this is that we have already enlarged our buildings.

Q. The 5% is required by a statute? A. Yes.

Q. The 10% is required by statute? A. Yes.

Q. As to the balance available for immediate distribution to the members, it may happen that they will not demand it, they leave it to La Familiale? A. Yes, it goes in the reserve called "Loan and development".

Q. I understood you to say that you pay no interest on capital, on subscriptions? A. Well, to become a member of La Familiale, one must buy ten shares at \$1.00 each. These shares are payable either in cash or at \$1.00 per payment, by the month or the week, or upon an initial payment of \$1.00 and the balance payable out of the patronage dividends

that may be credited. A minimum of ten shares is required; these shares do not yield one cent in interest.

Q. Then, your capital is made of these shares?

A. Yes, and of those in excess that members may subscribe for. They must at least own a minimum of ten shares.

Q. What advantage have they in subscribing if you pay nothing in return? A. On the first ten, no, we do not pay any interest, but on any multiple of ten shares, we do pay interest; it is at the rate of 3%.

Q. I understand that the 3% paid to shareholders is liable to be taxed as their personal income. As a matter of opinion, do you think that the 3% which may remain in the hands of La Familiale should be subject to taxation, that it is of such a nature as it may be taxed as being considered trade capital? A. I cannot answer this question in the name of all coöperatives because I did not have sufficient time to consult them. From my own point of view, I have no objection to making this 3 per cent subject to the act.

Q. What is your attitude in respect of the tax on the reserve? A. From what I said and from the way we interpret the ambiguous clauses of the act **respecting** coöperatives we claim that those reserves are inalienable and that, therefore, they do not represent accrued profits; they will never be distributed. We have in our constitution a clause to the effect that in case of a wind up, they shall be paid to a charitable institution, a charitable organization named by the Council of Ministers.

Q. Should it come to a wind up? A. Yes.

Q. Do you think that the members, at a general meeting when they are arguing about patronage dividends, might decide to cut into the reserve? A. Under our by-

laws, they have no right to do so.

Q. Your by-laws place the reserves out of reach of anybody? A. Nobody can touch it.

Q. It is not considered as an investment, a sum of money invested by anyone? A. No; I must add that it is so in respect of nearly if not all the consumer cooperatives of the province of Quebec.

BY MR. NADEAU:

Q. You mentioned the example of Sweden while reading from your statement. Do you know if, in Sweden, cooperatives pay income tax? A. No; we have never been interested.

Q. I understand that cooperatives pay income tax. A. From what I have been told, there is no country in Europe where cooperatives are considered on the same level as capitalistic enterprises, because legislation makes a sharp distinction between social organizations and enterprises of a primarily commercial character.

THE CHAIRMAN: The Caisse Nationale d'Economie comes next.

LA CAISSE NATIONALE D'ECONOMIE

MR. GUY VANIER: Mr. Chairman, you asked us to express ourselves, as much as possible, in English. I would do so with pleasure, but it just happens that I have to talk about a very peculiar institution, governed by special statutes, with contracts of a special character and a rather special terminology.

(Text): I was just saying, Mr. Chairman and members of the commission, that I represent La Caisse d'Economie, a pension fund society. The main object of the corporation is to encourage thrift and to promote means aiming at what is now termed social security. Since this is governed by a

special law and the terminology is quite special, I would prefer to make a few remarks in French and would be glad to answer questions in English to the extent of my knowledge and ability.

(Translation): La Caisse Nationale d'Economie is a pension fund institution. It was created by a special act; it has no capital stock; no private capital is invested in it and so there are no dividends and no profits whatever to be paid to private interests.

The institution aims to encourage and promote savings in general and particularly to promote savings in the shape which would tend to enable the greatest number of people to get on without being a charge to the State. Everybody knows that there is in the life of every man a period of vigour and production and a period of consumption. Every man can make a success of his own life, and save a little during that period of production in order to have his savings to fall back upon as he reaches the consumption period of his life when he must use more goods than he can produce.

Annuities take various forms. I do not want to go into too many technical details, but I would like to point out the forms taken by annuities.

MR. NADEAU: I have not had time to read your brief; I just glanced at your conclusions and I am wondering, off-hand, whether your brief should not be directed to another commission inquiring into the nature of annuities.

MR. GUY VANIER: It is undoubtedly addressed to that other commission and we have submitted to them a brief similar to this one. However, in the present case, it may be within the powers of your commission to look into the possibility of taxing part of the capital, either through a tax on premiums paid by members, or upon the whole of the investment,

or through a tax on the income from these investments or through a tax upon management funds.

MR. NADEAU: According to the terms of the order in council we are directed to conduct an investigation on cooperatives and mutual companies. Is your Caisse d'Economie a mutual company?

MR. VANIER: It is a mutual company the funds of which are administered in trust. The premiums are divided into two parts; one part is used to provide the reserves necessary to guarantee its solvency for those who pay the premiums, and the other part becomes the property of the Societe St. Jean Baptiste de Montreal.

MR. NADEAU: I always thought that the Caisse Nationale d'Economie was a pension fund company.

MR. VANIER: Yes, it is a company which is not itself responsible for its own management, but which contributes to its own management through the payment of part of the premium which part becomes the property of the parent company.

MR. NADEAU: I do not see how the terms of the order in council could apply to your enterprise.

THE CHAIRMAN: I do not either.

MR. VANIER: Except that you might conclude that this institution may have management income funds.

THE CHAIRMAN: We are supposed to consider any particular case but it is a question of general policy. We have nothing to do with your Caisse Nationale d'Economie.

MR. VANIER: I must admit that we are, I think, the only corporation of this nature in the country. This is why we deemed it advisable to file data about its creation, the source and nature of its revenue and the premiums received.

THE CHAIRMAN: We have no objection in accepting your brief at this time.

MR. NADEAU: You say that your company does not make any profits, that it does not seek any pecuniary gain, that it should not be taxed and, moreover, you do not come under the provisions of the order in council.

MR. VANIER: I take the liberty of emphasizing the following added point: there is also a system of annuities administered by the Federal Government, the costs of which are charged to the consolidated fund. In our case administration costs represent a share of the premium paid by members and a portion thereof is returned to the parent corporation which organized the association in 1889.

THE CHAIRMAN: Can this help us to solve the question submitted to us?

MR. VANIER: It may confuse it.

MR. NADEAU: Your argument may be summed up in three ways: 1.

1. "There are in Canada few economic and social initiatives as praise-worthy or promising as those supported by the Societe Saint. Jean Baptiste de Montreal through the Caisse Nationale d'Economie and the Caisse de Remboursement;

2. It behooves your commission to recommend to the Canadian government not to pass any laws which might deter these institutions from their aims or prejudice them." I do not think that this falls within the meaning of the order in council. And,

3. It is desirable for the development of social security in Canada that the Canadian government, within the limitations otherwise fixed by statutes extend to annuity contracts previous to the 25th June, 1940, the privilege to deduct from taxable income, pensions or annuities resulting from these contracts."

We have nothing to do with social security. In my

humble opinion this has nothing to do with the provisions of the order in council under which we are sitting.

MR. VANIER: I would like to avoid that, for lack of information, it may be found later that the administrative aspect of the premium used for administrative purpose be considered as a taxable income in the hands of the master corporation.

THE CHAIRMAN: It is not up to us to so decide.

MR. VANIER: Should the commission arrive at certain decisions which might.....

THE CHAIRMAN: It is not a decision, but a recommendation, that we shall submit to the government. There will be another authority where your argument may be submitted.

MR. NADEAU: I would be very pleased to hear you but I think that we are absolutely beside the point.

MR. VANIER: I would appreciate it if the commission would acquaint itself with our brief. It contains considerations concerning the management of the business and this part is somewhat akin to what takes place in cooperatives. Therefore, should certain decisions be taken affecting the management revenues of cooperatives, they might also have an after effect upon us. However, I am pleased to accept the commission's viewpoint.

MR. BROSSARD: The apprehension expressed by Mr. Vanier seems to be that we might consider as taxable that portion of management expenses paid to the Societe Saint Jean Baptiste by the Caisse.

THE CHAIRMAN: We have nothing to decide on this point.

MR. BROSSARD: This is due to the fact that the Caisse Nationale d'Economie and the Caisse de Remboursement are two branches of the Societe Saint Jean Baptiste and that the commission might make a recommendation whereby a portion of

the income derived from one or the other of these Caisses by the Societe Saint Jean Baptiste may be taxed. Now, it may be expedient to complete the brief by submitting to the commission what is the percentage of the premium paid to the Societe Saint Jean Baptiste for administration purposes and what exact disposal of these amounts is made by the Societe Saint Jean Baptiste.

THE CHAIRMAN: I do not think this could be of any help to us in our work.

MR. VANIER: Very well, then. In any event, the stand we have taken is exactly the same as the one just mentioned by my colleague. There can be no doubt as to the part which constitutes capital and reserves, but anything which may be considered as management income - the portion of premiums paid to the parent association, - if it were considered as a profit and taxed, would therefore expose us to a serious prejudice.

But, having regard to the ruling given by the commissioners, I am satisfied to abide by whatever decisions they might come to after reading the brief we have filed.

MR. PARKER (text): Mr. Chairman, if you are ready to proceed I suggest we take the Insurance Brokers' Association, if their representative is present. It is brief No. 287. This brief has been filed for some time. I do not know whether it is the intention for anyone to appear or not.

THE CHAIRMAN: It had better be called.

MR. PARKER: It is largely a matter of opinion. There are not many facts in it.

MR. CHAIRMAN: Mr. Chapdelaine, will you call the Insurance Brokers' case.

MR. CHAPDELAINE: Is there someone present representing the Insurance Brokers' Association of the province of Quebec?

(No response)

MR. PARKER: It can be filed and taken as read.
Then there is the Quebec Credit Union League; there does not appear to be anybody here representing them. They may have been under the impression that the cases we were handling to-day would last longer. They may be here to-morrow.

THE CHAIRMAN: It might be well to suspend these for the moment and put them at the foot of the list.

THE CHAIRMAN: We now have the case of the Cites-Jardins du Quebec.

HECTOR VEZEAU

residing at Westmount, No. 4156 Ste.
Catherine Street, having been sworn on
the Holy Evangelists, deposes:

BY MR. BROSSARD (translation):

Q. In what capacity are you appearing to-day before the commission for the Cites-Jardins du Quebec?

A. I am a propagandist.

Q. You are a propagandist of the Building Cooperative?

A. Yes.

Q. Did you yourself prepare the brief for the commission? A. Yes; it was revised by Mr. Gosselin, a director.

Q. Do you know if the brief was submitted to the members? A. According to the information Mr. Gosselin gave me, the brief was submitted to the directors whose names appear.

Q. Would you proceed with the reading of the brief?

A. Yes.

CITE-JARDIN DU TRICENTENAIRE, ROSEMONT, MONTREAL 36.

Constitution

"The society 'Garden Cities of Quebec' is a cooperative building society governed by the Cooperative Syndicates Act (R.S.Q. 1941, Chap. 290) for the purpose of

- 'a. carrying out any housing project or development, garden cities, or any other project planned and prepared by l'Union Economique d'Habitations, in accordance with the agreements, particular or general contracts passed between themselves for such works;
- 'b. enabling its members to use, lease, acquire, improve and hold the property (From its Constitution and by-laws).

Board of directors

"The directors elected at the general meeting of the members are the following: Messrs. J. Gosselin, president; Sylvio Rouleau, vice-president; Paul Riopel, secretary; J. A. Tessier; C. Millette; A. Salvail; J. Dupont; A. Fafard; J. C. Laboissiere; H. Therrien; V. E. H. Bastien; Guy Therrien and J. Ostiguy, all of Montreal.

The members

"The society 'Garden Cities of Quebec', as at December 31st, 1944, had two hundred and sixty members in good standing, more than 50% of them being owners of family dwellings in the Cite-Jardin du Tricentenaire.

Articles and By-laws

"All the activities of the society 'Garden Cities of Quebec' are carried out in accordance with the provisions of its constitution and by-laws duly approved, copies of which have been given to every member in good standing.

Work accomplished

"During the last four years, the society 'Garden Cities of Quebec', due to the cooperative efforts of its members succeeded in building 83 houses now occupied by their owners and in starting the construction of 83 more which will be completed and occupied by their owners in the first days of the spring of 1945.

"The society has also erected a permanent structure to replace another building burnt down in December 1943, and this permanent structure comprises the chapel of the Parish Notre-Dame du Foyer, a store of building materials, spacious quarters occupied by the administration of 'Garden Cities of Quebec' and of l'Union Economique d'Habitations, a dining room and other accomodations.

"Its technical board composed of the following services; architecture, purchases, cost accounting, accounting, supervision and propaganda, has completed plans for the construction of about 200 houses in 1945.

"The general plan for the single Cite-Jardin du T ricentenaire includes the construction of 600 houses, one church, one school, one community center, one commercial center and the laying out of a park extending to the whole area of the city, with a swimming pool, trees, shrubs, flower beds, etc.

Objective of the Garden Cities of Quebec

"An acute shortage of houses exists in the country, chiefly in the urban centers. Our governments are aware of the situation and promote as much as possible the construction of houses. For that reason the Federal Government amended, in 1938 and 1944, its National Housing Act already adopted in 1933.

"Through the cooperative formula, it is possible to

1. The first thing I noticed

was the smell

of the fresh air

and the

sound of the

water running

in the stream

and the sight

of the green

mountains

in the distance

and the feeling

of being in a

new world

and the

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eliminate the middleman and to effect substantial savings. For that reason, a group of Montrealers anxious to find an immediate solution to their own housing problem decided to get together and to organize a cooperative building society known as Garden Cities of Quebec.

"Consequently, the Garden Cities of Quebec is not only doing its share in helping the government authorities to solve the housing problem, but also through cooperation is succeeding in carrying out a project which private enterprise could not have executed.

Operations of the Garden Cities of Quebec

"All the operations of the Garden Cities of Quebec are figured on the following basis: cost price plus 10%. This 10% represents the refunding of the expenses incurred by l'Union Economique d'Habitations, a non-profit society which, through its technician, plans and prepares building projects and supplies other services, professional and specialized.

"The cost price of the houses built by Garden Cities of Quebec is based on the cubic foot and through that method the total cost of the whole undertaking of la Cite-Jardin du Tricentenaire which is being erected, or of any other subsequent enterprise will be spread equitably over the member owners, once the project is completed.

"An adjustment will be effected through patronage dividends."

MR. BROSSARD: I have read the brief. As to the remainder it consists of quotations and excerpts of reports to which specific references are made, of quotations or excerpts of information supplied by the International Labour Board. I do not know if the commission is interested in hearing them immediately, but I do not believe they would give rise to additional information on the part of the witness.

THE CHAIRMAN: If there are no facts submitted.

MR. BROSSARD: It consists of quotations.

THE CHAIRMAN: Proceed with the reading as far as the quotations.

THE WITNESS: The Dwelling and the Post-war

"The sub-committee on housing and town planning of the advisory committee on Reconstruction has established in its report, beyond the shadow of a doubt, the importance of the problem of house construction in Canada.

"It declared itself fully in favor of encouraging in any possible way the financing and carrying out of all the projects of house construction undertaken by public bodies, private enterprise or cooperative societies.

"With regard to the reduction of the costs of construction, the committee state (P. 223) that in view of the effectiveness of housing industry, the builders and contractors must end to the cooperative action.

"That suffices to bring out the advantages offered by the cooperative movement in Canada in respect of construction of houses at prices reduced to the minimum.

"Moreover, the sub-committee has a chapter on this matter of cooperative housing, (appendix E, pp. 266 to 271 inclusive.)

Tax Exemptions

"In all countries where housing and dwelling construction policies have been carried out, since the beginning of the 20th century, the governments concerned have in all legislation relating to this matter, adopted either one or both of the following forms of financial encouragement:

- 'a. grants or bonuses for the building of houses of an approved type;
- 'b. tax exemptions for building and housing companies and cooperatives.

"It is essential to emphasize in this memorandum the world-wide tendency to grant larger and more frequent reductions and exemptions to cooperative associations than to private concerns.

Foreign Legislation

"(Extracts from the book 'European Housing problems since the War' by the International Labour Office, Series G, No. 1).

"Great Britain: Section 5 of the Housing Act, July 31st, 1923, authorizes local authorities to facilitate the increase of housing accommodation....by encouraging (by a limited refund of rates) the conversion of houses into flats or tenements. (p. 109).

"France: The reductions in and exemptions from rent of course cause considerable loss to landlords. Some allowance is made for this by the act of 9 March 1918 (sections 20 and 31) which entitles landlords....to compensation from the government for unpaid rents and certain reductions of taxations. The remission of taxes is in proportion to the total amount of the unpaid rents. (p. 119).'

"In France also, the amendment proposed by Messrs. Cautru and Humbert-Rigolfi, Section 20 of the Act of March 31, 1922 grants all new houses total exemption from the land tax for 15 years. Moreover, in another bill, a member considers that the exemption from direct taxation which was voted by parliament is insufficient to facilitate the resumption of building, and proposes to exempt from transfer charges dwellings built before December 31, 1927. Another bill passed on July 10, 1922, contains clauses relating to exemptions from taxation. Mortgage loans are temporarily exempted from the various taxes payable on them if the purpose of such loans is the construction of houses; Taxes on

securities are also remitted for 15 years in the case of joint-stock companies which have invested capital in the building of houses and those whose object is to grant building credits.... (pp. 154 to 158).

"Belgium: Even the Act of August 9, 1889 granted reductions and exemptions from taxation.... to workers who purchased a house or land or contracted a loan with a view to building a working-class dwelling... After the war this privilege was extended to persons 'of small means' and 'cheap dwellings'. (pp. 170 and 171).

"Italy: In the early years of this century, even before the war, legislation had been passed for encouraging the construction of cheap dwellings by granting builders exemptions from taxation and providing them with credit facilities. (p. 184). The most important fiscal privilege is the exemption of working-class and cheap dwellings from all real property taxes and from provincial and municipal levies (legislative Decree of October 23, 1922). Other privileges granted in respect of cheap dwellings include entire exemption from mortmain dues, taxes on personal property, etc. (p. 206).

"Denmark: In order to promote the resumption of building construction, the state and municipalities granted to building industries financial advantages in the form of tax exemptions, advances and subsidies. By the act of July 3, 1916, municipal councils were empowered to grant either complete or partial exemption from municipal taxation for a period of 10 years on all new dwellings put into use. The policy of granting loans to cooperative building associations was initiated by the Act of March 31, 1917. (p. 262).

"Germany: Section 59 of the Income Tax of March 24, 1921 (R.G.Bl., p. 313) gives power to deduct from taxable

income the sums expended on building small dwellings, whether these sums are spent directly on building or paid to public utility building organizations. Similar powers are also granted in respect of the corporation tax.... In addition to these exemptions, there are the numerous privileges extended to public utility building and settlement societies under various Federal and State Acts. Reference may finally be made to the large number of municipal tax exemptions, which, owing to their variety, cannot be discussed in detail. (p.350).

"Austria: The state not merely promotes building by providing financial grants and credits, but also gives indirect financial encouragement by extensive rebates on taxation (Building Promotion Act of June 2, 1922.) (p. 393).

"Czechoslovakia: It was provided that the state and the community should have a right of pre-emption over the buildings so erected. This legislation was supplemented by a second act of March 30, 1920 (Sb. z a n. 209) under which dwellings completed before January 1, 1922 are entitled to complete exemption for a period of 20 years from state taxes and the additional charges payable to the local authorities, and subsequently to a permanent reduction of 20 per cent, on state taxation. This policy of encouraging building produced very appreciable results. Later on, the period of exemption from taxes on real estates is extended to 50 years in the case of small dwellings. (pp. 406 to 408).

"Hungary: Energetic steps to promote the building of small dwellings were not taken by the state until 1921. Act No. LI of 1921 granted the following privileges: state contributions towards the cost of building, facilities for obtaining loans towards building expenditure, the right of expropriation, the right to employ state employees, special exemption from taxation, etc. (p. 436).

"Report of I.L.O. on relations between cooperatives:

(Extracts from Cooperative Information, by the International Labour Office, no. 8, year 12, 1935, under the title 'International').

"The International Committee on relations between Cooperatives, at its meetings of April 15 and 16, 1935, stated: 'The National Cooperative Council of the Netherlands, when an act was introduced before parliament with a view to tax mortmain property, succeeded in convincing the Finance Department that such a tax shall not apply to the property of cooperative associations, the amounts credited to their members and surplus distributed to these. The Swiss committee has now and henceforth placed on its programme a measure affecting fiscal legislation as far as it concerns cooperative organizations. In Lithuania, it is also through the efforts and steps undertaken by the 'Lietuvos Kooperativa Tryba' that the profits tax has not affected the cooperative movement. In Yugo-Slavia, the General Federation has joined in the movement aimed at reducing the fiscal charges falling on farmers and authorizing the payment in kind of outstanding taxes.

Action on public opinion: In a parallel direction with those attempts at representation and defence in legislative and fiscal fields, it has often been necessary, in face of the hostility of the opponents of the cooperative movement, to organize action on public opinion. This action is explicitly one of the objects of the Bulgarian and Swiss committees. It is also performed by the British Cooperative Union. In the Netherlands, the National Cooperative Council corrected in the press statements made by opponents of the movement and endeavoured to fill in the gaps and make up for the remissness it had noted in the publications and reports dealing with cooperation.

Statement of the International Labour Office

"(Excerpt from 'European Housing problems since the war' published by the International Labour Office, series G, No. 1, pages 50 and 51 under the heading 'Remission of Taxes'):

"Remission of taxes was a well-tried method of pre-war housing policy. After the war it was again largely applied in nearly all countries with considerable success. For example, the highly successful resumption of house-building in the United States, particularly in New York state, is attributed to the stimulus provided by legislation remitting taxation.

"The encouragement of building by such means may take various forms. In many countries, such as Germany, sums expended on house-building are deducted when the income is calculated for taxation purposes. In others the taxes and fees which are ordinarily paid in connection with the various legal transactions involved in the building or transfer of houses are reduced or remitted. The most far-reaching and most frequently applied for is, however, the reduction or remission of the taxes on real estate paid to the state or the municipality, whether the latter are collected separately or as a percentage addition to state taxes. The exemption from taxation is generally limited in time and only confined to small houses, and thus it tends to promote the building of houses of all kinds.

"Although in normal times the remission of taxation proved an extremely effective means of encouraging building - it was one of the chief instruments of the housing movement in France - during the post-war housing crisis it has had to be supplemented to a considerable degree by direct financial assistance.

Request of the "G.C.Q."

"In view of the foregoing, the Cooperative Building Society 'The Garden Cities of Quebec', the aims and objects of which may be likened to those of all European and American cooperative organizations, when these had to carry out home and housing building programmes of the same nature as the said association 'The G.C.Q.', feels justified in asking that its financial operations be not subject to the Income Tax Act of Canada and that its request receive from the appropriate authorities the sympathetic consideration it deserves.

"Made this tenth day of February 1945, to be submitted to the Royal Commission of Inquiry on Cooperatives, at Montreal, on February 19, 20 and 21, 1945.

"Summary of this submission addressed to the secretary of the commission, Major H. D. Woods, Ottawa, January 13, 1945."

BY MR. BROSSARD:

Q. Will you tell us what qualifications are required to become a member of the association? A. Before becoming a member of the Garden Cities of Quebec one must be a member of l'Union Economique d'Habitations.

Q. Then the first qualification is to be a member of l'Union Economique d'Habitations? A. Yes.

Q. So there is direct connection between the two associations? A. Yes.

Q. What is l'Union Economique d'Habitations? A. A non-profit association.

Q. Incorporated? A. Yes, under Part III of the Quebec Companies Act. It is a technical and educational association showing people how to avail themselves of the National Housing Act, showing them also the benefits to be

derived by living in a garden city like that of the Tercentenary, where health, sanitation and all economic, social and moral conditions are made obvious. When this is done, it prepares housing projects. For instance, it has architects, town-planners, construction superintendents, engineers, who prepared a garden city project. When the project is well established, when the persons enrolled have examined it, they are asked if they want a home built. If they wish to have a home built, they deposit their first cutlay.

Q. With whom? A. With l'Union Economique d'Habitations.

Q. To become a member of l'Union Economique d'Habitations, one must undertake certain obligations? A. Yes, there is an agreement.

Q. What kind of an agreement? A. A written agreement obliging the member to observe the regulations of the association.

Q. Does that agreement entail financial obligations? A. Yes and no.

Q. Is there a fee? A. There is a \$2.00 membership fee.

Q. Is there a yearly or monthly fee? A. No, not in l'Union Economique d'Habitations.

Q. Then to become a member of l'Union Economique d'Habitations the only disbursement members are required to make is \$2? A. Yes.

Q. When a member has decided to build, what must he do? A. He must deposit his first payment with l'Union Economique d'Habitations, which temporarily administers the Gardn City until it is built, and when it is built it is transferred by deed to the local group which is to be organized into a housing cooperative.

Q. So far l'Union Economique d'Habitations is not a cooperative? A. No.

Q. However, it has prepared a broad housing construction project in a specific area in the city of Montreal? A. Yes.

Q. It requires an outlay or deposit from its members who wish to have a house built? A. Yes, the deposit being applicable on the house.

Q. The deposit is a condition of a special agreement? A. Yes.

Q. Up to this point the Garden Cities of Quebec do not come into the picture? A. The Garden Cities of Quebec carry out construction at the request of the l'Union Economique d'Habitations.

Q. When the l'Union Economique d'Habitations has gathered a sufficient number of persons interested in having houses built, who have agreed to have a house built and who have made a deposit with it, l'Union Economique d'Habitations entrusts to the Garden Cities of Quebec the task of constructing the houses? A. Yes, that is correct.

Q. Is the cost or price of the house mentioned in the agreement passed between the l'Union Economique d'Habitations and the members who want a house built? A. No, the ultimate price is not mentioned; only the estimated cost.

Q. Do the members who are to have a house built pledge themselves to pay a specific amount to l'Union Economique d'Habitations? A. Yes, there is the pledge to pay, when the Garden Cities is completed, on an equitable basis for all, on the cubic contents, each house cubed according to its type; each member shall pay on an equal basis, so much per cubic foot.

Q. Members who want a house built must sign a special agreement with the l'Union Economique d'Habitations?

A. Yes.

Q. And it is the Garden Cities which carry on the construction? A. Yes.

Q. Is it the Garden Cities which carry on the construction? A. The Garden Cities of Quebec have carpenters, electricians, painters, but there is some other work that is given to sub-contractors.

Q. It is a plan that is presently under organization? A. Yes.

Q. The final amount to be paid by those who have had houses built has not been determined? A. No, it will be determined only when 600 houses have been completed.

Q. According to the plan, each of those who have houses built and who occupy them or are on the point of taking possession of them shall be called upon to supplement his outlay? A. We call the outlay the initial payment. And as all the present owners who are there pledge themselves by loan to the Sun Life...

Q. They pay an estimated price? A. Yes.

Q. And the final price will only be determined when the project is completed? A. Yes.

Q. Up to date can you say if the Garden Cities have made profits or not? A. No.

Q. Have you a financial statement? A. Yes, we have; I do not think it contains important information. It is the balance sheet as at December 31, 1943.

BY MR. NADEAU:

Q. This is your first balance sheet? A. I think there was another one before that.

Q. Have you your regulations? A. Yes, I have them there.

BY MR. BROSSARD:

Q. I would like information on another point. It is about the first paragraph, page 2 of your submission, where you state: "The Society has also erected a permanent structure to replace another building burnt down in 1943, and is composed of the chapel of the Parish Notre-Dame du Foyer; a store of building materials, spacious quarters occupied by the administration of Garden Cities of Quebec and of l'Union Economique d'Habitations, a dining room and other accommodations. With what resources has that permanent structure been built? A. With the resources of l'Union Economique d'Habitations. The Garden Cities of Quebec have built it at cost price.

Q. Does the Garden Cities of Quebec require its members to pay a certain amount as compensation for services rendered for the preparation of plans, construction? A. Yes, Let us make that plain. You decide to become owner; there is an estimated price, say that of the "Canadian" house M-C-4, the estimated price of \$6,750. That amount covers the house, the land, the pavements, the sewers, and ten shares of \$10 to become a member of the local cooperative when it is formed. It is for that reason that l'Union Economique d'Habitations comes in pending the formation of the cooperative.

THE CHAIRMAN:

Q. L'Union Economique d'Habitations is not a corporation? A. No, it is a non-profit society.

BY MR. BROSSARD:

Q. The Garden Cities exist? A. It is a building not a housing cooperative.

Q. It is anticipated that in the more or less near future another cooperative will be formed under the name of Cooperative d'Habitations? A. Yes.

Q. And each member of l'Union Economique d'Habitations and each member of the Garden Cities of Quebec has agreed to pay the price of ten shares? A. They have paid it.

Q. To a home cooperative to be formed? A. Yes.

Q. Shall the Garden Cities of Quebec, as a separate corporation, make a profit on the whole of the transactions or is there such a possibility? A. That is possible. That is the reason of the submission. No profit; there may be an overpayment. As I said a moment ago, a compensation account has been opened where the price is entered, the first outlay, and where the price of the house shall be shown. The compensation account takes the place of compensation account between the two in order to refund on completion whoever has been overpaid at the beginning.

Q. To determine the final construction cost of all the houses included in the project the actual construction cost shall be taken into account, i.e. what has been paid to the contractors, the cost of materials, and the payment of the ten shares to the housing cooperative? A. Yes.

Q. Will a certain percentage also be taken into account to pay the expenses of l'Union Economique d'Habitations or of the Garden Cities? A. Yes, as stated in the submission; it is ten per cent; on a house of \$5,000 it is \$500 that goes to l'Union Economique d'Habitations as compensation for expenses incurred in the preparation of the project.

Q. On a \$5,000 house the member shall be called upon to pay \$500 more plus the shares? A. The amount includes all; the amount we fix with the present or prospective owner includes all.

Q. Subject to readjustment when the price he shall be called upon to pay shall consist of the actual cost, of ten per cent and of the value of the ten shares? A. Yes.

Q. Now, that ten per cent, what is it used for?

A. To constitute a reserve. You have it in the regulations here: use of resources derived from the execution of the developments.

Q. It is and has been used for the construction of the permanent structure? A. A reserve is necessary; when the Garden Cities are constituted a reserve will be necessary for the acquisition of necessary things, for the payment of municipal and other taxes as required and which l'Union Economique d'Habitations has had to pay during its administration in place of the Housing Cooperative, for example the blind streets, public baths, the library; all that requires funds and that is the use that is to be made of the reserve constituted of the capital shares.

BY MR. NADEAU:

Q. You have stores? A. There was a meeting last night to organize a consumers' cooperative for the members of the Garden Cities.

Q. Have you any stores? A. We have reserved a space in our permanent structure for our cooperative.

Q. But you do not sell any goods? A. No, we do not; the cooperative will.

Q. Do you sell houses to non-members? A. No; they are built as required, except that we proceed by block building, building a whole street at the time; that is why our construction is cheaper than otherwise, because we build a whole street. A building block includes 16 to 24 houses. On a block of 24 houses if 23 are ordered, we build the 24th in anticipation that it will be sold before completion.

Q. But you only sell houses to members? A. Yes.

BY MR. BROSSARD:

Q. It is a society rather than a cooperative?

A. We have insisted on presenting a submission in anticipation of future discussions that might arise.

L'UNION REGIONALE DE MONTREAL DES CAISSES

POPULAIRES DESJARDINS

MR. BROSSARD (text): Mr. Perreault, representing les Caisses Populaires, is ready to be heard.

In addition to the documents already filed, given in advance by Mr. Perreault, I asked Mr. Perreault this morning for the by-laws of l'Union Regionale. What we had had were the by-laws of each local, but he is now filing the by-laws of l'Union Regionale.

MR. PERREULT: As a matter of fact, may it please the commission the by-laws have not yet arrived; they will be here in a few minutes.

THE CHAIRMAN: That is all right; they can be filed.

MR. BROSSARD: My Lord, shall we insist on the reading of the brief?

THE CHAIRMAN: I think we might have the brief read, and then adjourn.

MR. PARKER: I suggest that in some cases, unless there are interested parties who wanted to hear the brief read, where it is being presented by counsel they might read certain important parts and speak to the rest, and thus save time.

MR. BROSSARD: In this particular case, my Lord, the brief is being presented by l'Union Regionale des Caisses Populaires. There is to be a brief presented in Quebec by the Federation des Caisses populaires. La Federation des Caisses populaires - my learned friend will correct me if I am wrong - is the federation of both regional unions.

I suppose in Quebec we might be called upon to investigate the operations of the local caisses as well. My understanding is that with the exception of some possible small differences the operations of locals in Quebec and in Montreal are practically identical. We might be interested in having some information given to us by Mr. Perreault concerning particular aspects of l'Union Regionale de Montreal as distinguished from l'Union Regionale de Quebec, or from the Federation.

THE CHAIRMAN: Do you think, Mr. Perreault, you need to read the whole brief, or would you prefer to take it as has been suggested?

MR. PERREAULT: As it pleases the commission; if you prefer that I give certain extracts from the brief, in the nature of a short resume, I will do so.

THE CHAIRMAN: I think if that will be satisfactory to you, it will be suitable to us.

MR. PERREAULT: Then, I will do that, with pleasure, my Lord.

Translation:

May it please this Honorable Commission: "L'Union Regionale de Montreal des Caisses Populaires Desjardins" is a federation of the "caisses populaires" constituted under the Quebec Cooperative Syndicates Act; it groups in the region of Montreal 169 "caisses populaires" and 169 savings and credit unions. This brief is being presented in Montreal for two reasons. In the first place we wish to emphasize the decentralization which exists in the organization of the savings and credit unions, and, in the second place, we wish to emphasize also the relative importance, in the Montreal region, of savings and credit unions, but, as for the rest, we wish to state that we form part of

the "Federation des Caisses populaires" of the province, which is divided into ten regional unions, grouping all the credit unions.

As this Honorable Commission may notice, we have divided the brief into two parts. In the first twelve pages, we allege certain facts, and in the second part, we advance certain arguments to arrive at the conclusion that cooperatives should not be taxed, that is that the exemption allowed by the Income War Tax Act and the Excess Profits Tax Act should not be altered and that cooperatives generally and more particularly savings cooperatives should continue to enjoy these exemptions.

With regard to the facts that are stressed, the learned counsel for the commission may examine the officers of l'Union Regionale de Montreal who are here. I wish to draw the commission's attention to the fact that "l'Union Regionale" is constituted under the Quebec Cooperative Syndicates Act and that it groups 169 "Caisses" or 169 savings and credit unions in Montreal and surrounding district. I wish also to draw the commission's attention to a matter which, though a question of law, is, for all practical purposes, a question of fact. I refer to section 6 of the Quebec Cooperative Syndicates Act which provides that "Such cooperative activities shall not be deemed to constitute the carrying on of a trade, financial establishment or means of a profit."

Several organizations have represented to you that, in fact, there are no profits in cooperatives, and we submit that the different laws passed by parliament do not confirm a new principle but confirm something that already existed.

I draw attention of the commission to certain statistics appearing on page 5 of the brief; the data are

on page 5 of the French text; Population served by these 169 "caisses", 657, 262 persons in the district of Montreal. Cooperators are grouped according to parishes, so that the population is not that of the whole region of Montreal, but the population of the parishes where a "Caisse populaire" exists.

I also draw attention to the aggregate assets which, on August 17, 1944, amounted to \$17,210,533.39. This goes to show that cooperators who are members are people of rather limited means, the reason being that savings unions are especially intended for those of rather modest means, both in the country and in the towns.

There is, on page 8, another point which I wish to bring to the attention of this commission. We give on page 7, as samples of "caisses populaires" of the Montreal district, a list of eight "caisses populaires", those of Immaculate Conception of Montreal, of St. Hermas, County of Two-Mountains, Notre-Dame of Hull, St. Enfant Jesus of Montreal, Ste. Cecile, St. Alphonse d'Youville, St. Jean-de-la-Croix, and the Caisse populaire of St. Jerome. These "caisses" are typical of the cooperative movement and have been used as models for the development of the cooperative movement in the province of Quebec.

On page 8, we give figures that explain why the revenues of these "caisses" should be considerable, giving rise to the question as to why these revenues should not be taxed. There are, for the eight "caisses", 8 Boards of Directors and, under the law, a Loan Committee and an Advisory Committee. The caisses populaires are administered by three boards of directors: A board of directors which performs about the same duties as the board of directors of a company; a Loan Committee which, under the law, has the exclusive supervisor

of loans, and an Advisory Committee, which has access to the books and to the funds and may call a meeting of the members. And so, for the eight "caisses", there are 69 directors or administrators; 25 loan committee men and 22 advisory committee men. In other words, for the eight Caisses, there are 116 officers responsible for the administration.

Those are the facts of the case. My learned friend will have an opportunity of questioning the secretary of i'Union Regionale" and the managers of the Caisses, who are here.

In the second part of the brief is set out the argumentation, that is the arguments put forward by us in support of our contention that this commission should report the doing away of the exemptions afforded by section 4 of the Income War Tax Act.

Text:

Here I would like to say a few words to this honourable commission: the brief was drafted in French and the translation was as literal as possible; sometimes the translation may not be very happy, but if there is anything that should be cleared up I shall be pleased to furnish explanations to the commission.

Translation:

In our argumentation, we present three lines of arguments. First, come social services rendered; then there are the financial services rendered to our members, and, lastely, in an attempt to show the existence of those three classes of services, there is a legal aspect which one may gather from the circumstances under which these cooperatives operate and from the laws that govern them.

With regard to social services, we wish to emphasize

that this initiative originated in Canada, drawing its inspiration from savings or loan societies organized in Europe around 1848. Consumer and production cooperatives have developed, especially since the days of the Rochdale pioneers, one hundred years ago, and the savings and credit union was developed during the nineteenth century, in the Rhineland. In 1900, Mr. Alphonse Desjardins founded the first caisse, at Levis, and subsequently, many others in Montreal. At first, the object was to combat usury and ensure a greater measure of social security among the people. People were poor and money lenders were more or less exacting.

The "caisses populaires" have rendered great services to their members. I draw the commission's attention to paragraph 4 on page 14 of our brief: "What must we say also of the social and economic training received by those members who accept to manage, supervise gratuitously the savings of the people. In the 169 "Caisses" of this district, they number close to 2,300 -- without taking into account the managers who receive very small tangible tokens in compensation -- those members who, without any hope of receiving financial remuneration, devote, spend themselves to earn the gratitude of their fellow-members. They manage wisely, they grant credit with equity or look over operations with fatherly-like attention as a social duty. They assume heavy responsibilities because they have a social sense that faith in the undertaking has developed to a high degree.

Under the law, the directors have no right to compensation. The officers who administer savings and credit unions have no right to remuneration and, in the Montreal area, for 169 "caisses", we have about 2300 officers. In other words, instead of economic organizations on a somewhat large

scale, with a head-office directing the operations of branches and efficiently administering other people's savings, instead of 15 or 20 officers, you have 2300 of them. It goes to show that, in these days, when there is need of developing in the people a greater sense of responsibility under a democratic regime such as ours, these "caisses d'epargnes et de credit", afford a practical training to a great many members. If, instead of 169 autonomous cooperatives, you had an organization with 169 branches, those who administer the branches would not have the same responsibility as have the 169 boards which have to assume responsibilities, prepare a balance sheet and submit same to the meeting of their members.

And so, we submit that, from the point of social responsibility, of instilling responsibility into the masses of the people, as well as from the economic point of view, the "caisse populaire", as a means of social training, is irreplaceable.

As for economic services, in Montreal and Quebec as the evidence would show, it is a fact that the "caisses populaires" as in the case of other cooperatives, render services at a lower cost. The reason for this is simply that the middleman is done away with. Undoubtedly, there is recrimination in certain quarters, that the competition is unfair, what really is of importance to the state, both from the point of view of public welfare and of taxation, is not so much that the middleman should prosper as that services be rendered. And if a medium can be found whereby this exchange of services may be accomplished at a lower cost, the economy of the country will not be prejudicially affected thereby.

In the second place, by securing for the cooperators

savings and credit services at a low cost, the buying power of the general public is increased and the incentive to save is encouraged. There results from this a double fiscal advantage to the government, even if this should not be apparent. Indeed, trade and economic activities in general are fostered by this increase in purchasing power, whence an increase in the collection of certain taxes, such as taxes on private income, sales taxes imposed on wholesalers, excise taxes and customs duties. The fostering of thrift brings about an acceleration in the renewal and increase of industrial capital, thereby encouraging new industries and increasing commercial and industrial production.

In the third place, by affording their members banking services at a lower cost, mortgage loans at rates as low as 4% and personal loans at 5 or 6% without additional costs, union credits place credit at the disposal of their members. With this credit -- and that is the main service the "caisse populaire" in the province of Quebec renders -- with this credit at a low cost, the individual is enabled to pay off certain debts and make purchases, all of which would otherwise be impossible. For instance, it often happens, in Montreal, that, when he marries, a man would like to buy furniture but cannot afford to pay \$200 or \$250. If he buys on the instalment plan, the purchase price will be increased. He goes to the "caisse populaire", undertakes to refund at a small rate of interest, then goes to the merchant and pays cash. He thus is enabled to save on the interest and to even get a reduction in the purchase price.

On page 19 of the brief, we stress sections 39 and 29 of the Act. Under sections 39 and 29 of the Act, in the case of savings and credit unions, the reserves do not belong to the members. The reserves are, in principle,

collective property. Moreover, in case of dissolution of the union -- which is a rare occurrence -- the government disposes of the excess of assets over liabilities. Indeed, section 29 provides that the excess assets must be paid to a public utility undertaking designated by the Lieutenant-Governor in Council. If a "Caisse" has an accrued reserve of \$100,000 and the society is then wound up, the Lieutenant-Governor in Council directs the liquidator to hand over the \$100,000 to a hospital or a charitable institution, because the reserves of Caisses populaires do not belong to members; they are there solely to meet losses. Members cannot touch them.

Section 38 determines how surplus earnings are to be distributed. This distribution is for the benefit of the members only. One portion goes to the members, a second to the depositors, and a third is paid to borrowers who have obtained advances and thus encouraged the cooperative. Surplus earnings are not profits; they decrease the cost of services rendered to members.

The surplus earnings from the operations of these savings and credit-granting cooperatives is very small. The source of this surplus lies in the cooperative and social sense which these cooperative institutions develop among their officers and their members. Section 23 of the Cooperative Syndicates' Act states that the duties of the officers, namely of the board of directors, of the advisory committee and the loan committee, are performed gratuitously. Only the services of the manager can be compensated. In actual practice, however, the cooperative grows because, during the first year, the manager accepts to discharge his duties in consideration of a remuneration of \$1.00. The premises are, in nearly every case, supplied free of

cost to the cooperative for several years. These sacrifices enable the Caisses populaires to grow; to pay depositors a rate of interest slightly higher than that of certain financial institutions; to make loans to their members at a rate below the current rate and to realize, nevertheless, a small surplus which is paid out to the cooperators.

THE CHAIRMAN: As far as the surplus is concerned, it is actually the property of the "Caisse"?

MR. PERRAULT: Yes; in a strictly legal sense, it belongs to the "Caisse"; or rather the "Caisse" holds it in trust to meet potential losses. Let us suppose one of the borrowers fails and cannot pay back his loan; the loss is met out of this surplus. If the society goes into liquidation, the members cannot say "This belongs to us"; the Lieutenant-Governor in Council will dispose of it in favour of a hospital.

We state in conclusion that taxation of savings and credit-granting cooperatives would create a three-fold injustice. First, it would be a reversal of the economic policy followed by the federal and provincial governments. Since the beginning of the 20th century, as a matter of fact, the manifestations of popular initiatives have always been encouraged by all democratic governments and the Dominion Government has itself done so. In all parts of Canada and in the province of Quebec, the cooperative movement has been encouraged. The Dominion parliament has included in the Income War Tax Act of 1940 a provision exempting cooperatives from that tax. Hence, a situation of which cooperatives have taken advantage; they have developed. A change of policy would in fact mean changing a situation which gives vested rights to cooperatives.

This exemption granted by parliament is a recognition of

the cooperative movement. The cooperative movement has not developed on account of these laws, it had started before that. We have now vested rights. If our income is now taxed, some cooperatives will shut down and others will suffer, and you have in the Montreal district 56,000 cooperators who will suffer from this change of policy.

THE CHAIRMAN: It is not a question of making somebody suffer. If the cooperatives do not suffer, others will.

MR. PERRAULT: Before the report is ready, we submit that we should not suffer. And, finally, we develop this argument which has often been developed namely that the taxation of cooperatives' income or the taxation of their surplus, of their profits, means a double tax on the personal income of each cooperator. We submit that this belongs to the cooperators. The cooperative's assets and income are the property and the income of the cooperators and, therefore, there will be a double tax on the income.

MR. NADEAU: Is not the shareholder of an ordinary company in this position of having to pay a double tax?

MR. PERRAULT: The shareholder of an ordinary company does not participate in the activities of the company. For instance, I may own shares in a bank and may never obtain a loan from that bank or make a deposit. Consequently, the income of that bank results from the activities of other persons, and as shareholder, I receive an income, a sort of toll on the services required from the bank by its customers. This income is paid to me but it was not created by my own activities. While in a cooperative, it is the cooperator who created its own income within the cooperative.

MR. NADEAU: Because it deals only with its own members?

MR. PERRAULT: Yes.

THE CHAIRMAN: It is the board of directors in each case?

MR. PERRAULT: Yes; it is the board of directors that makes the contract. What I mean is this: the savings and credit-granting cooperative only takes deposits from and makes loans to its own members; whereas in a bank, the bank receives funds from persons other than shareholders, and shareholders are paid an income which they have not contributed to create. In the savings and credit-granting cooperative, the cooperative's income is created by the operations, activities, contracts, deposits and borrowings of the members.

MR. NADEAU: Does the Caisse populaire make loans to its members only?

MR. PERRAULT: Yes, and receives deposits only from its members.

MR. NADEAU: Does it invest its funds elsewhere?

MR. PERRAULT: Accessorily, the Caisse populaire makes investments. The Caisse populaire is a savings and credit-granting cooperative. Obviously the ideal purpose is to use all the savings to extend credit to the cooperators themselves. The law allows us to make investments elsewhere.

I call the attention of this commission to the statistics on page 11 of our brief. The investments made elsewhere by us are investments under Section 40 of the Cooperative Syndicates Act of Quebec, and they can benefit the community only; in other words we cannot make a loan to non-members. Thus, among the investment of 169 Caisses, we hold federal bonds to the amount of over two million dollars, Province of Quebec bonds amounting to \$1,862,810.00; municipal bonds: \$816,700; School Corporations: \$884,425; Religious institutions: \$1,351,000; those who benefit are parishes, colleges or hospitals and therefore the investments are in fact social investments.

MR. NADEAU: How do you explain this passage of the affiliation resolution paragraph 5, which reads: "That loans to non-member individuals or public bodies be made by this board after previous consent of the Federation des Unions regionales de caisses populaire Desjardins." Does it happen that you make loans to people who are not members of Caisses populaires?

MR. PERRAULT: Under Section 40 of the Act, we can do so in certain cases. With the consent of the Federation, a local "Caisse" may be allowed to loan on mortgage to a non-member individual, but in fact, it is not the practice.

There may have been exceptions, but to my knowledge, it is not the practice; we do not lend on mortgage to non-members.

MR. NADEAU: I take upon myself to ask questions on that subject. If a non-member wishes to obtain a loan from the Caisse populaire, will not the Caisse populaire make it easy for him to become a member?

MR. PERRAULT: Our Caisses populaires, as much as possible, are not managed in view of a profit. We like just as well a member who gives us encouragement by borrowing from us. What we are seeking is not so much savings as credit. According to the cooperative principle, admission to a cooperative is free. If somebody comes along with \$1,000, we say to him: "Join first". If somebody wants to borrow \$1,000, are we going to accept him with open arms! Not necessarily. He must join first in order to make a deposit or obtain a loan.

MR. NADEAU: So that it is very easy to deal with your members?

MR. PERRAULT: The essence of cooperation is freedom of action for everybody. We accept everybody in the Caisses

populaires, whether they want to deposit or to borrow.

We encourage borrowing by means of a refund. The man who borrows at 5 per cent can get a refund of one-half of one per cent at the end of the year.

MR. NADEAU: At this point, do you not think that the Caisses populaires are competing with similar institutions who lend on mortgages?

MR. PERRAULT: Yes, there is competition. I was going to ask to be allowed by the commission to submit an additional brief later.

Text: If I might express myself in English, we have a triple conclusion in our brief. The first of course is to sustain our submission that the cooperative should not be taxed, and we give three reasons for that. The first one is that the federal parliament and the provincial legislatures in this country have encouraged the credit unions and co-operatives since the beginning of the twentieth century; as a matter of fact it has been done in all democratic countries of the world. Therefore we have a right to expect that the parliament of Canada and the provincial legislatures will continue along that same line.

The second reason is that we have vested rights now. We have vested rights that no tax should be added to the credit unions. We have developed since the beginning of the century with these dispositions in the laws; therefore we have a vested right to expect that the same laws will continue to be enforced.

MR. NADEAU: Is parliament bound by those vested rights?

MR. PERRAULT: Oh, no; parliament is not bound, but we have the right respectfully to make submission --

THE CHAIRMAN: I would not call a provision of this kind a vested right, Mr. Perrault.

MR. PERRAULT: Well, of course if we were to be very strict it might not be a vested right, but we consider that to be a vested right.

The third point is that taxation on the income of a credit union, or excess profits tax, for example would be another tax on the income of the cooperative. I respectfully ask this commission to be permitted to submit an additional brief. There has been talk of competition, and there has been talk also all through this country, judging from the newspapers, of the privileges granted to the cooperatives and credit unions under the Income War Tax Act and the Excess Profits Tax Act of 1940. But as a matter of fact these are not really privileges. A great many of the companies have had privileges; for example the credit union would gladly pay a tax if they were to have the same privileges as the banks have under section 88 of the Bank Act. In many fields privileges have been granted by special acts of the federal parliament or the provincial legislatures. For example, in the incorporating of certain companies they were given grants of land and all kinds of tax exemptions. They have succeeded in developing an economic system under the company laws of Canada with those privileges granted to them by the federal parliament and the provincial legislatures. It is a very modest help that the cooperatives and the credit unions have had under these exemptions that we find in the Income War Tax Act, chapter 97 of the revised statutes of Canada, and in the Excess Profits Tax Act, 1940.

MR. NADEAU: I understand that you are not paying any provincial taxes, according to the statute; is that right?

MR. PERRAULT: No, we are not paying any taxes. But it is the only privilege that we have had. We never had any grants of land, or the benefit of the dispositions made by

the Bank Act, sections 77 to 96. There is no unfair competition; therefore I think it is only fair that the cooperatives should do as they do now. Under the laws as they exist I do not think it can be called unfair competition that is unfair to the companies as they do business now.

MR. ARNASON: May I ask a question?

MR. PERRAULT: With pleasure.

MR. ARNASON: Do you know -- I am not very well acquainted with conditions in your province -- or do you not, whether your local credit unions, caisses populaires, are required by the Income Tax department to make a deduction of seven per cent at the source with respect to interest that they pay on shares? Is that within your knowledge?

MR. PERRAULT: As a matter of fact in the region of Montreal which I represent we have not yet been asked by the Income Tax department to make such deduction. But our provincial federation, and we are part of the provincial federation of caisses populaires, was notified about a month ago by the Income tax department that in the future all the credit unions will have to make the deduction of seven per cent. As a matter of fact I do not know for what reason, but in Three Rivers they have obliged certain credit unions to make this deduction for the last three or four years, if I am well informed. As I say, in the past we were not required to make this deduction, but from now on the credit unions in Quebec will be obliged to do it.

MR. ARNASON: That is pretty well in line with the other provinces. It appears to be a recent development in your province?

MR. PERRAULT: Yes, quite recent.

At 4.25 p.m. the Commission adjourned until Thursday, February 22nd, 1945, at 10 a.m.

Montreal, Quebec,
Thursday, February 22, 1945.

The Commission resumed at 10 a.m.

Mr. PERRAULT (text): May it please the Commission, I am through with the brief I have presented.

(Translation): I have here as a witness Mr. Emile Girardin, who has been manager of a credit union for ten years and secretary of l'Union regionale for nine years. He has been associated with savings and credit cooperatives since 1919.

EMILE GIRARDIN

living in the city of Montreal,
4233 St. Hubert Street, after being
sworn on the Bible, gives evidence:

BY MR. BROSSARD;

Q. I understand you are general secretary of l'Union regionale des Caisses populaires Desjardins (the Montreal Regional Union of Desjardins' Savings and Credit Unions) that you are also manager of a local union? A. I am no longer manager of a local union.

Q. L'Union regionale includes a certain number of Caisses populaires? A. Yes.

Q. Are there Caisses affiliated with other unions? A. They are not affiliated with us when they are affiliated with others; they can only be affiliated with one regional union.

Q. The two principal regional unions are those of Montreal and Quebec? A. No; there are ten now; Trois-Rivieres, Rimouski, Sherbrooke, Gaspé, Lac St-Jean, etc.

Q. Each of those regional unions carries on in the same manner, has the same powers and control over the local unions affiliated with it? A. They are all managed under the same constitution.

Q. Then we may take for granted that the constitution of l'Union regionale de Montreal is a typical institution?

A. Yes, with minor differences, but only as to local needs.

Q. Is there an agreement signed when a local union joins l'Union regionale? A. No, only an affiliation form.

Q. An affiliation form shown in what is called: documents of foundation of la Caisse populaire? A. Yes.

Q. And the only condition for la Caisse populaire is to comply with the by-laws of l'Union regionale? A. Yes.

Q. You have submitted a copy of the Union's by-laws? A. Yes.

Q. Am I right in saying that under the by-laws of l'Union regionale the task of the latter is to supervise the local unions and also to advertise in favour of the local unions? A. That is correct.

Q. You have a control over the local unions? A. A moral control, a control of persuasion.

Q. Only that? A. Yes.

Q. Do you receive any money from each of the local unions? A. Yearly fees.

Q. Will you submit a statement of revenues and expenditures of l'Union regionale de Montreal for the fiscal year September 30, 1942 to August 31, 1943? A. Yes; we have that for 1943-1944; we have submitted two statements.

Q. The resources of l'Union regionale are mainly derived from the affiliated unions' fees? A. That is the only source of revenue. The other receipts that you see are remittances from the federation.

Q. Then l'Union regionale does not enjoy in commercial operations? A. Absolutely not.

Q. And the main item of expenditure, according to your statement, is for advertising? A. Exactly.

Q. What is the character of that advertising by l'Union regionale in favour of the local unions? A. When a parish

group expresses the desire to establish a union in the parish, that group applies to l'Union regionale and the latter sends an organizer to that parish to explain what is a Caisse populaire and to establish one if it is justified, if the parishioners are sufficiently prepared. We have two delegates, two organizers: Father Desmarchais and Father Dulude. We had four last year; we had Father Rouleau of Joliette and Mr. Audet for the Abitibi district. The organizers explain the purpose and benefits of a Caisse populaire.

Q. To whom do they explain that? A. To the parishioners.

Q. Not only to those who have expressed the desire to establish a Caisse populaire, but also, I imagine, to other parishioners who, even if they have not expressed the desire to become members of the Caisse populaire, are, in the opinion of the manager, likely to become members? A. To those who attend the meeting and seem to take an interest in the movement.

Q. Is part of that expenditure applied to propaganda with persons who are not members and whom it is desired to have as members? A. Yes.

Q. Is there much difference between that propaganda of l'Union regionale and the advertisement that might be made by a loan company, for instance? A. We do not advertise in the newspapers.

Q. It is a direct propaganda, a personal propaganda? A. Yes.

BY MR. NADEAU:

Q. What is the amount of your propaganda item for the last fiscal year? A. For the last fiscal year, it was \$4,000 derived from a collection by the Federation des Caisses, and we have made up the difference every time we send an organizer outside the Union, but the Federation reimburses those costs.

BY MR. BROSSARD: . . .

Q. However, in your statement September 1943 to August 31, 1944, I see under the heading "Revenue": Propaganda, \$3,393. A. That is a reimbursement from the Quebec Federation.

Q. For the same purpose? A. Yes, for the same purpose.

Q. So, on one hand, you receive local unions' yearly contributions which you use in part for propaganda and you receive from the Federation a partial reimbursement of expenses incurred for the same purpose? A. That is correct. This year, that Federation's reimbursement and budget has been set at \$2,000 on account of the unions that have gone out.

Q. Now, as to local unions are there special qualifications required for membership? A. For individuals to become members of the local Union?

Q. Yes. A. They must have moral qualifications; they must be known as honest, sober and good conduct.

Q. There is no distinction as to religion? A. Yes, the constitution states that they must be Catholics. But, it is stated somewhere...

Q. Non-Catholics are admitted? A. Yes, as auxiliary members.

Q. What are the powers and rights of auxiliary members? A. They may be members, but they have no vote.

Q. Then the saying that cooperatives make no distinction as to race, language or religion does not absolutely apply to Desjardins' Caisses populaires? A. Our system lies on the parish and it is the parishioners that may be members of a union; parishioners are those who go to church.

Q. The Catholic parish? A. Yes.

Q. Are there other than moral qualifications required of prospective members? A. They must buy a \$5 share, payable in a lump sum or in small weekly instalments even of ten cents.

Q. As a rule, is there a strict attitude taken in regard to the admission of members? A. I would not say there is a strict attitude. All those who offer guarantees of goodwill and good conduct are admitted.

Q. Are there many cases of people having been rejected? A. Not to my knowledge.

Q. You do not know of any? A. It is possible.

Q. It is generally easy, on condition of meeting the statutory requirements, to become a member of a Caisse populaire? A. Absolutely.

Q. Is there a limit to the number of capital shares a member may hold? A. There is a limit fixed at the general foundation meeting. The maximum may be 40 or 60 shares.

Q. For each union? A. It is a local matter. Each Caisse is autonomous and establishes its own by-laws on internal management.

Q. Do you know the average of the maximum number of shares which members may hold in the local unions? A. At the time of foundation the number may vary between 20 and 60 shares. I cannot say what the average is.

Q. Are there any provisions in your constitution or by-laws which debar a person from being a member of more than one caisse? A. Yes, he is supposed..

BY THE CHAIRMAN:

Q. Is there any control? A. No, because each member must be a parishioner; it is the area that is circumscribed. If he is a parishioner, he belongs to his union and if he is no more a parishioner he may stay with his union; and that would only apply in case he moved to another parish and he became a member of another caisse. If he stays in the parish, he shall not become a member of another caisse.

BY MR. BROSSARD:

Q. To become a member is it essential to live in the area where the caisse is located? A. Yes, to live in the area of the caisse. He may also be a member if his business office is in the parish.

Q. Therefore the member who moves must give up his shares to some one else? A. No, shares are not transferable except at the death of a member.

Q. It would therefore be possible for one to hold shares in several caisses? A. That is an exceptional case.

Q. Are there any that you know of who hold shares in several caisses? A. Yes, there are some.

Q. Are there some who hold a large number? A. No; one share.

Q. To meet the requirements? A. Yes.

Q. Now, will you tell us briefly what are the sources of revenue of the caisses populaires? I do not mean the operations. What are the sources of profits which the Caisses populaires are able to distribute at the end of the fiscal year? In other words, from where do the Caisses populaires derive their profits? A. From their loans.

Q. Essentially? A. Yes.

Q. They do not derive any profits from investments? A. Loans and investments.

Q. The investments are bonds subscribed or purchased and owned or issued by persons who are not members? A. According to the act, the caisses have authority to do it.

Q. You comply with the law? A. Yes; dominion or provincial bonds.

Q. School or municipal? A. Yes.

Q. The interest derived from those investments are part of the caisses revenue? A. Yes.

BY MR. NADEAU:

Q. Do you make loans on mortgages? A. Yes; loans on mortgages, on acknowledgment of debt, on capital stock, on the pledging of securities.

BY MR. BROSSARD:

Q. Those mortgage loans, do you make them to members only? A. Yes, to members.

Q. Only? A. Only. I might say 99 and 9 per cent. If it is a loan approved by the credit committee, it must be to a member.

BY MR. NADEAU:

Q. Is not the approval by the credit committee required for all your loans? A. Loans to members.

Q. And loans to non-members? A. No loans are made to non-members.

BY MR. BROSSARD:

Q. You make a distinction between loans to members and loans that do not require approval? A. That would be in the case of an investment in favour of a school board in a neighbouring parish which cannot be a member of the parish caisse. Then, in that case, it would be an investment made by the board of directors in that school board or municipality.

Q. You are referring to investments. Do you mean the purchase of securities or an advance made to that school board, which would be an advance secured by a mortgage?

A. Secured by a mortgage, yes.

Q. You handle that kind of business? A. Yes, the occasion may arise, but very seldom.

Q. What is the other source of revenue? A. Loans to members.

BY MR. NADEAU:

Q. Could you establish the percentage of the loans made

to non-members, for a given caisse? A. As far as I know, I cannot see any; I never noticed during my fifteen years as a manager any loan to a non-member. Yesterday, you seemed to point that case out, it may be a single case, but I do not know of any.

Q. If I pointed the case out, it is because you provide for that. A. This is provided for, but it is not a practice.

Q. Does the borrower become automatically a member?

A. He has to be a member before he gets a loan. Nobody can borrow without having first secured his membership share, and in most of the caisses there is a rule stating that a member cannot borrow before three months of membership. He has to be a member for three months before borrowing.

BY MR. BROSSARD:

Q. Do you frequently happen to admit as a member an individual who would have first applied for a loan? A. If I refer to my experience as a manager for fifteen years, we said: "Very well, you want to secure a loan, get your membership first, and after three months you will be able to borrow."

Q. Does it often happen that an individual comes to the Caisse for borrowing purposes and you are obliged to tell him: "Become a member, and in three months you will be able to get a loan? A. It may happen, I have not been a manager for ten years now.

BY MR. NADEAU:

Q. In other words, on payment of \$5, the price of a share, a borrower can get a mortgage loan from you? A. If he is eligible as a member and if he continues to be a member for three months. In most cases the caisses refuse those kind of loans to people in a very great hurry; we regard them as dangerous, and we do not wish to make them, because this does not belong to the social activity of the caisse.

BY MR. BROSSARD:

Q. With regard to loans to members as a rule, do you ask for the same securities as those demanded by lending institutions? A. Our security is based almost only on the moral value of the individual.

Q. You require one endorsement or two? A. We require a guarantee. That is to say that the guarantor comes and says to the credit commissioners: "You did right in lending to that particular individual".

Q. Would you tell us how the yearly operating profits are divided? A. In the first place there is the interest paid to depositors, and then the current expenses of the year which make a total. These two expenditures, interest and operating costs, are deducted from the gross revenue of the caisse, and there we get the net profits. Out of those net profits, twenty per cent go to a reserve fund; ten per cent to a provident fund and the surplus earnings are distributed to the members in the form of bonuses on their membership shares.

Q. Is the bonus distributed according to a definite percentage? A. According to a percentage determined by the general meeting.

Q. What is that percentage generally? A. It may be three per cent, three and one-half per cent; perhaps four per cent.

Q. Is it higher than four per cent in certain caisses? A. Yes, in some cases, and the first year it is often zero.

Q. In the case of older caisses, can the percentage of the bonus with regard to the amount of partnership shares not exceed four and a half per cent, five per cent? A. It can reach five per cent, to my knowledge. Five per cent is the highest bonus paid by some old caisses, but it is said somewhere: "Before increasing the bonus, a reduction in the rate of interest or a

patronage dividend must be granted to the borrowers." Whenever there is an increase of the bonus, this advantage must also accrue to the borrowers through a reduction of the interest rate or a patronage dividend at the end of the year.

Q. Would you tell us, out of the net profits, who are those who are first entitled to any refund whatsoever? Is it the shareholders, the borrowers? A. The members.

Q. They are entitled to a bonus out of the net profits? A. To a bonus on their partnership shares.

Q. And what is the maximum they can receive before a subsequent distribution takes place in favour of somebody else? A. It is different according to the operations of the caisse, the surplus earnings of each of the caisses. This may range between two and three and one-half per cent; zero at the beginning, and one and a half, two, two and a half, three per cent. It may go up to five.

Q. In the case of certain caisses, out of the net profits there is a bonus of say five per cent, which is declared in favour of the members? A. After making provision for reserve and provident funds.

Q. If there is a balance left after the five per cent bonus, how do you use it? A. This may be paid as patronage dividends.

Q. To whom? A. To the borrowers.

Q. Only? A. Only to the borrowers.

Q. And wholly? A. Not wholly, for amounts may be left which form a surplus fund. Now, some caisses have other funds, contingent funds or educational funds, because the law permits the establishment of certain funds.

Q. Could you tell us, in the case of the 169 caisses which are under the jurisdiction of the Union Regionale de Montreal, what is the total amount of reserves of all sorts?

A. Their own assets are \$389,081.24. This includes various funds; reserve fund, provident fund, surplus fund, educational fund.

Q. Could you divide those \$389,081.24 amongst the various funds? A. I cannot do it for you, because I have not the figures. We can do it on specific reports. First, you know that the reserve fund increases gradually each year, not only by 20 per cent but also by reason of the admission fee paid by the member on his partnership share. He pays a fee of 10 cents; this fund goes into the reserve. The net profit is composed of the 20 per cent plus the 10 per cent admission fees.

Q. What use do you make of this reserve fund? A. To provide for possible losses.

Q. What about the provident fund? A. That is another provision fund; this is the first one that is drawn upon in the event of loss.

Q. What are the other reserves? A. There may be a reserve with reference to the educational fund.

Q. This educational fund varies as between one caisse and another? A. Yes.

Q. For the 169 caisses on the whole, is it substantial? A. I could not say.

Q. Is that fund used by the local caisses themselves, or transferred to the Union Regionale or the Federation? A. It is used by the local caisse itself, for propaganda and education purposes, because propaganda is an education.

Q. A subtle distinction has to be made between the various words: profits, benefits, overpayments, and also between the words: education, propaganda and publicity. Could you tell me in what respect you consider that the operations of the caisses populaires Desjardins first differ

from certain operations by banks, and in the second place from certain operations by loan companies. In what respect do you believe they differ essentially? A. First, operations are carried out only with members.

Q. For whose admission you are not severe, as you said a little while ago? A. Usually, they are good people living in the parish, and moreover those are distinctions which I never draw when speaking of the caisses. I point out the advantage of the caisse, and I never refer to other institutions. I am less prepared to make that distinction between the caisse populaire and other financial institutions.

Q. As to the distribution of profits, is there a difference you could stress? A. I know what is going on in our organization, but I do not know what is going on in other institutions. I said a moment ago how we operate.

By MR. NADEAU:

Q. When you said a little while ago that you divided the profits amongst your members to whom you had lent money, did you include the institutions mentioned on page 11 of your memorandum, to which you make big loans? A. No, those are securities, debentures, that kind of patronage dividend is granted only to member-borrowers on promissory notes.

Q. The interest you receive on those investments is distributed among your members? A. Yes, it is pointed out that about 70 per cent of the revenues return to the members.

Br. MR. BROSSARD:

Q. The bonus varying from 3 to 5 per cent is not over and above the interest paid on shares? A. No.

Q. This takes the place of interest? A. Yes, it is the word which may correspond with the word "dividend".

Q. Could you supply the commission with a statement giving the details of the caisse's own assets, concerning the report

of August 31, 1944? A. This report was prepared by Father Desmarchais, our propagandist, who is here. I do not know if he still has the figures.

Q. I do not ask that they be produced immediately, but that they be given to the commission within a few days. A. Within a few days, that is a big undertaking.

Q. Let us say within two weeks? A. Yes.

By MR. NADEAU:

Q. On page 10 of your memorandum, under the item "Current loan in the 169 caisses affiliated". paragraph (b), you say that the total amount of current loans outstanding as at August 31, 1944 is \$5,576,306.23? A. Yes.

Q. Does that total include the loans you made to non-member public corporations? A. No, this paragraph (b) on page 10 refers to loans made to members. It does not include investments in securities.

Q. What is the total amount of your investments in securities? A. This is on page 11 and they amount to about seven millions.

Q. Do you have the average return of these investments at the end of the year? A. The average return, well, we have the rate.

Q. The total return at the end of the fiscal year for those operations of about 7 millions? A. This is hard to give. We cannot make the division. You have here investments for 7 millions and 5-1/2 millions to the members; you have net revenues to the amount of \$111,000. It is impossible for me to segregate the revenue from investments and the revenue from loans to members.

Q. Would it be correct to say that those investments can yield an average of 3-1/2 per cent? A. Yes.

Q. What would be the average return? A. Little more

than 3 per cent; I do not know if we could say 3-1/4.

Q. What is the average interest rate of your loans to your members outstanding as at August 31, 1944? A. Rates on mortgage loans to members are about 5 per cent; on promissory note loans they are 5-1/2 per cent, not to mention the patronage dividend which reduces the rate; on share loans, they are about 4 per cent. It is difficult for me to specify the average rate.

Q. This varies from 3 to 4 per cent in some cases? A. Yes, for members. You have an illustration of this on page 9; owing to the fact that a member gets out of debt gradually, monthly, through equal payments, the interest rate is reduced. The rate of 6 per cent continues to be 6 per cent, but as a matter of fact the member pays only 3.90 per cent.

Q. Do you pay patronage dividends to your mortgagers? A. Yes; some caisses do.

Q. But in the aggregate? A. In the aggregate, profits do not always permit it.

Q. Do you pay patronage dividends to those who simply give you promissory notes? A. Patronage dividends are paid indiscriminately. Now, there might be a graduation in the rate of the patronage dividend, but this patronage dividend is paid to all member-borrowers without any distinction. I cannot say exactly how the patronage dividend works in each of the caisses.

Q. Is it not the duty of the Union Regionale to see how the funds are managed? A. Each caisse is autonomous and self-governing. The mission of the Union Regionale is to see that the caisses comply with the law and regulations, but we do not interfere with that internal control which consists in dividing their profits or their operating surplus.

Q. Have you a representative of a local caisse here?

A. Yes, Mr. Remillard is a representative of a local caisse.

by Mr. NADEAU:

Q. Does the Union Regionale centralize the available funds of the local caisses? A. L'Union Regionals is not a financial organization.

Q. I am asking if it centralizes the available funds of the local caisses? A. L'Union Regionals is not a financial organization.

Q. I think, errors excepted, that your constitution gives, among the aims of l'Union Regionale, the power to centralize the available funds of the associated caisses in order to help them on easy terms and conditions. Is such an article implied? A. L'Union Regionale may establish and does establish, besides such a supervisory agency, another organization which is La Caisse Centrale. That is the distinction.

Q. La Caisse Centrale is under l'Union Regionale's jurisdiction? A. They have the same directors and besides La Caisse Centrale has a supervisory council and a credit committee.

Q. By whom are they elected? A. By the caisses' representatives at their general annual meeting.

Q. What is the purpose of this Caisse Centrale? A. Its purpose is to help local caisses which may be momentarily short of cash by reason of having made too many mortgage loans or because there were too many periodic withdrawals, too many Victory loans. La caisse may then be short of cash. Then La Caisse Centrale may lend money to the local caisse.

Q. Under what terms does it make such loans to local caisses? A. I am quite willing to answer, but I am not the manager of La Caisse Centrale.

Q. Is the manager of La Caisse Centrale here? A. Yes.

By MR. PERRAULT:

May it please the commission. I understand the commission does not wish employees to be heard. We wished to point out the importance of the local caisses, but as to the financial part, inspection and control, the caisses depend on the Federation and we thought the commission could study that matter at Quebec. But if the commission wishes the employees to be heard, we have no objection.

By MR. NADEAU:

I think it would be better to hear at least an inspector and the Caisse Centrale's manager in order to understand correctly the mechanism of the caisses populaires of the Montreal district. I will ask some general questions.

Q. You receive deposits from your caisses populaires?

A. Yes.

Q. What is the extent of such deposits by your 169 caisses?

A. They represent \$15,480,380.81.

Q. Do these deposits come solely from your members? A.

Yes, solely from members.

Q. Do you pay any interest rate on such deposits? A. Yes.

Q. What average interest rate do you pay? A. It may be two and a quarter; some caisses pay one and a half per cent; others pay two per cent and still others, two and a half per cent.

Q. Are your member-depositors entitled to patronage dividends by reason of the deposits they may have made in your caisses? A. No, patronage dividends are paid to borrowers only.

Q. Can these depositors withdraw their deposits? A. They may withdraw by cheque.

Q. By cheques quite similar to bank cheques?

by MR. PERRAULT:

I must say there is a distinction; these are drafts or

bills of exchange, because cheques must be drawn on a bank, but in the every day language members do not use such a word.

By MR. NADEAU:

Q. Do you require any fee for the administration of such deposits, for clearing? A. Our caisses are only savings banks.

Q. For the administration of such accounts, do local caisses require any fees? A. I do not think so.

Q. You do not know? A. I do not think so. In some localities it may happen, but usually when a member draws too many cheques, he is warned that it is a savings bank; it is not an accounts department for so and so.

Q. I see here among the purposes of your Union Regionale, in clause 8, "make the exchange without charge of the different affiliated caisses' cheques." Can you say exactly what that means? A. That would be La Caisse Centrale's business for L'Union Regionale has no cheques; that is La Caisse Centrale's business. I would rather see La Caisse Centrale's manager give evidence on that matter.

Q. I understand also that you insure your assets? A. Our caisses take out insurance, insure their managers, their fidelity, insure safes, insure messengers and insure also employees against hold-ups. L'Union has nothing to do with that.

Q. Do you know that American insurance company called "Kuna"? A. I have heard about it.

Q. Which insures the deposits of the Caisses Populaires in that region?

By MR. PERREAULT:

If Mr. Commissioner may allow me. During the last provincial session, an organization has been formed in order to insure the Caisses Populaires; it came into force on

February 1. Since the legislature enacted such a law, a cooperative is now doing insurance business on a cooperative basis for the caisses of the whole province, or it is ready to do so from February 1.

By MR. McDEAU:

Q. Do you take any insurance for your members, fire insurance, etc? A. No.

Q. Who does the auditing of the Caisses Populaires, L'Union Regionale or La Caisse Centrale's balance sheet? A. The Federation's inspectors do it, but here, in Montreal, we have travelling inspectors, I mean who go from one caisse to another to do the checking. When a manager is in a bad fix or does not seem to balance we have two inspectors in Montreal who go and lend a helping hand to the local manager and we have besides in Montreal, a mutual aid committee. Just now, we have 13 managers who volunteer to make inspections from one caisse to another and help on bookkeeping, but inspection depends on the Federation for the moment.

Q. Is your experience in the matter of loans to your members interesting? You have not lost many of those loans? A. All I can say, is to refer to the time I was a manager. I was the manager of a caisse populaire in a very poor parish in Montreal. We loaned during 15 years more than half a million in amounts of \$50, \$100, \$200 and \$500, and we never lost one cent.

Q. One of my colleagues requests me to ask you some questions. May parishes or municipalities, as public corporations, be members of local or central caisses? A. Of local caisses.

Q. How are these parishes treated when they are members of local caisses? A. As an ordinary member.

Q. Upon payment of \$5? A. Yes, and upon payment of tax.

Q. And comply with the other formalities of admission?

A. Yes.

Q. Is it the same with municipalities? A. Yes, it is the same with municipalities.

Q. Are there other public corporations which can be members? A. School boards, trustees, which means the same thing; there may be agricultural cooperatives.

Q. Consumer cooperatives? A. Yes.

Q. How are these associations represented in your council? A. By delegation.

Q. How do your members vote, for a public corporation as well as for your ordinary members? A. On the basis of a vote per person.

Q. Is there voting by proxy? A. No, absolutely not.

Q. I think you answered this question to some extent a moment ago. Up to what point do you make loans to such schools and municipal corporations, "fabriques", trustees and cooperatives? A. I have no accurate figures.

Q. Could you get accurate figures showing the orientation, the destination of the investments which you lend to such corporations? A. In each caisse?

Q. No, but let us say in 3 or 4 typical caisses? A. It would be possible to secure the data in that respect.

By MR. PERREAULT:

If this commission is willing to give us a few days, we could prepare a statement.

The WITNESS:

You are referring to loans, to bonds of "fabriques" and corporations?

THE CHAIRMAN: Yes.

A. I have the case of a parish of which I was the manager and which assumed the whole debt of the "fabrique" last year,

nearly \$15,000, the parish of Ste. Clothilde in Montreal.

Q. By a note? A. Yes, but there are many cases. When it is a question of building schools, the school board borrows directly from the caisse.

by MR. NADEAU:

Q. Are such corporations entitled to patronage dividends?

A. They would be entitled to them.

Q. Are they entitled to them or not? A. They would be entitled to them, in my opinion; it is an opinion.

Q. But in practice, do they receive any patronage dividends?

A. As to the patronage dividend, it is applied locally in each caisse; I cannot answer in the name of each caisse.

Q. May we also have the balance sheet, the working account of 4 or 5 caisses? A. We have about 15 of them to submit.

Q. L'Union Regionale has also a balance sheet; La Caisse Centrale? A. La Caisse Centrale, yes. As to L'Union Regionale's balance sheet, I have handed it over to Mr. Attorney.

By MR. PERREAULT:

If it is your wish, we will have the balance sheets of La Caisse Centrale, of L'Union Regionale and of 5 or 6 caisses arranged and have them handed over to the Commission.

By MR. NADEAU:

In dissecting as much as possible the destination of loans.

By MR. PERREAULT:

We have here with us monthly balance sheets which were arranged by the local caisses. Cooperatives have a book-keeping system which enables them to enter their whole transactions from the beginning of the cooperative, from the beginning of the year and from the beginning of the month. Every month, the local caisse sends a copy of its monthly balance sheet to L'Union Regionale and a copy to the Federation.

By COMMISSIONER NADEAU:

Q. What are the relations between the different Unions Regionales, particularly between L'Union Regionale de Montreal and La Federation des Caisses populaires de Quebec? Are there any business relations, any transfer of funds between La Federation and L'Union Regionale de Montreal? A. Yes, there are at first subscriptions we receive from our caisses and we give a quarter of them to La Federation.

Q. Can your available funds, wholly or partly, be, in case of need, handed over to La Federation? A. L'Union Regionale's available funds?

Q. Those of L'Union Regionale's, of La Caisse Centrale's? A. No, there is no transfer of funds; there are deposits between central caisses which can be made for the purpose of transactions, but to say whether they can be centralized....

Q. In case of need? A. La Federation has no central caisses; it is L'Union Regionale de Quebec which has a central caisse.

Q. There may exist transfers of funds between the different central caisses of the Unions Regionales? A. Yes.

Q. Under what terms are such transfers of funds made and for what purpose? A. For the purpose....once again, I am invading my colleague's field.

Q. You can answer? A. It is for the purpose of possible exchange of cheques or drafts between members of the different regions.

Q. Under what conditions are these exchanges of drafts made? A. Under the ordinary conditions that obtain with other institutions.

Q. What are those conditions? A. The conditions would be according to the terms set out in the conditions of the financial institutions in the locality.

Q. According to the rate of interest? A. You mean if the central caisse deposits money with La Caisse centrale de Quebec?

Q. Yes. A. At the present time, we agreed that no interest be paid, if it is for a few days.

Q. Can long-term loans be made to a central caisse by another central caisse? A. That can be done, but it is not done; it was not done, to our knowledge.

By MR. PERREAULT:

Q. I understand L'Union Regionale holds an annual meeting of representatives of the caisses populaires? A. Yes.

Q. When does such an annual meeting take place? A. Within 60 days after the close of the business year of L'Union Regionale de Montreal, that is to say, within 60 days following the 31st of October.

Q. As a matter of fact, in 1944, at what date did your annual meeting take place? A. On October 27, 1944, on the 27th or the 28th; I do not remember exactly; I think it was on the 27th.

Q. How many local caisses were represented? A. 125, I believe.

Q. By how many individuals were those local caisses represented? A. There were not only the individual delegates, the individual representing the "caisse" proper, but also some directors, some members of the loan committee, members of the advisory committee who joined the group; all told we were over 500.

Q. I understand that each delegate is appointed by a resolution of the board of directors? A. Yes, the delegate has a credential that he has to present before the meeting.

Q. How long does the meeting last? A. From ten to thirty o'clock.

Q. From ten o'clock in the morning to six o'clock in the evening? A. Yes, and there is a recess of one and a half or two hours for lunch; sometimes we adjourn for another meeting, to another day.

Q. So this year, in 1944, five hundred cooperators of the caisses populaires met and studied questions interesting the caisses? A. Yes, at the start we have meetings, general meetings, study meetings, question box type, and committee meetings. Each committee studies its own assignments.

Q. You spoke of the gratuitous services of the directors specified in the Act, and you also mentioned the fact that the manager receives only one dollar for the first 12 months. Did you yourself establish many caisses? A. About 50.

Q. That is to say, you supervised the carrying out of the provisions of the Act? A. Yes.

Q. With regard to those caisses, could you say what remuneration the manager was willing to accept for the first year? A. In accordance with the latest provisions, which are five or six years old, it is one dollar.

Q. Before, did he ask for a salary? A. No, we warned him that he had to serve gratuitously for the benefit of others. As a matter of fact, that is what I did when I entered the "Caisse populaire Ste. Chlotide", I accepted to be thanked at the end of the year and was quite happy to be thanked.

Q. Reference was made to the administration of the various caisses. Would you file with the commission 20 reports showing the position of 20 local caisses at January 31, 1945 or December, 1944; specimen of accounting kept by the caisses? A. Yes, it is a monthly report received from our affiliated caisses. When in the course of the examination of such reports we notice something wrong, we send our travelling inspectors.

Q. I understand that a similar report is sent to the Federation? A. Two copies are sent to L'Union Regionale and the latter sends one copy to the Federation.

Q. What do you do with the reports? A. We examine them.

Q. Every month? A. We used to at the beginning when there were only thirty caisses. I give only my spare time to L'Union Regionale. Since we have 169 caisses, I have not the time to audit every report, but one after the other they are audited and since recently, we have inspectors to do that work of L'Union Regionale. If the books fail to balance, we send our inspectors for the necessary auditing and rectification.

Q. I understand that at the bottom of the report, at the left hand corner, there is a space reserved for the signature of the members of the advisory committee? A. Yes, the members of the advisory committee have to sign once the report is audited.

Q. Reference was made a few moments ago of the conditions of admission. Does each individual have to sign when he becomes member of a caisse populaire? A. He has to sign the membership book, the application form: "I agree to become member of a caisse populaire and to abide by its constitution and by-laws.

Q. Consequently, when he becomes a member he agrees to comply with the constitution and by-laws? A. Yes.

Q. And such constitution and by-laws are based on those already filed with the commission? A. Exactly, the list of the new members is submitted every month to the board of directors and such members may be rejected if there are objections to do so and so.

Q. In the 20 reports already submitted for the 20 local caisses, the portion of the net credit appears for those

caisses? A. Yes, it appears under several items.

Q. I take the report of La Caisse Ste. Cecille de Montreal at January 31, 1945. Reserve fund: \$218,111.20; provident fund, \$7,695.00; surplus fund, \$2,687.44; buildings depreciation fund, \$5,336.46. Those funds are shown in the reports submitted? A. Yes, that is what we call the net credit of the caisse.

Q. Net credit governed by sections 29 and 39; that is to say that in the case of a dissolution, it must be divided between some charitable institutions? A. Yes, it never goes back to the members.

Q. A question was asked by Mr. Nadeau concerning loans granted to corporations, members of your caisses. Do you remember a loan granted to the town of Beauharnois or do you know the details of a loan granted, some two years ago, through the caisse populaire of the above mentioned town? A. Yes, the town of Beauharnois floated a bond issue and the caisse populaire purchased the whole issue. The caisse kept a portion for itself and sold the other.

Q. The town of Beauharnois undertook to sell the difference? A. I think the caisse took a large volume, if not the whole issue; more than \$60,000.

By MR. BROSSARD:

Q. In your brief, page 21, it is said: "The tax imposition on the revenue and the taxation of the surplus profit would stop, paralyze the development of savings and credit-granting institutions that are the caisses populaires. Do you mean to say that the exemption from income tax or from the excess profit tax the caisses populaires have enjoyed up to now, either in accordance with the act or by tolerance, have greatly contributed to the development of the savings and credit cooperatives? A. I am sorry, I am not in a position to

discuss the legal aspect of the brief.

Q. It is not the legal aspect. A. It is the legal aspect; I mean it was included in the legal aspect.

By MR. PERREAULT:

Q. Give us your opinion. A. Up to now, the caisses have expanded due to the generosity and the devotedness of the members, and the few surplus earnings on operations are due to the fact that not a single director was remunerated and that even the services of the members of the loan committee and of the advisory committee were rendered gratuitously. Consequently, the caisse was in a position to realize some surplus, enabling it to pay its deposits a rate of interest equivalent to the rate paid by other organizations, and even to pay on membership shares a bonus of perhaps one and a half or two per cent. The profits are very small; had a tax been imposed on that portion of the profits, the caisse would have been unable to pay anything whatsoever, neither to the depositors nor to the members.

Q. If I understand your answer, you conclude by saying: had there been an income tax, you would have been unable to pay the depositors the same rate of interest or to pay the same patronage dividend to your members? A. In Montreal, our caisses are in their infancy. You notice the developments: in 1922, they started with 38. Some are one, two, three, five years old. At the outset, the caisse accepts the deposits of the depositors. Sometimes, such deposits are loaned six months later. Before the wheel is set in motion during the first year, the money may remain idle during two, three, four months before loans are granted and during all that time the caisse has obligations as far as the depositors are concerned. Compared with the obligations contracted with the depositors, the profits are very small.

By MR. ELDEAU:

Q. Are you a member of l'Union Canadienne des Cooperatives?

A. No.

Q. Does it happen that following some turnover of funds, a caisse centrale or local caisse has to wind up its business?

A. That may happen.

Q. Was there any case of forced liquidation? A. To my knowledge, it occurred once; around 1927, I believe.

Q. Are you speaking of the district of Montreal? A. Yes.

Q. In such a case, are the other central or local caisses able to come to the rescue of the caisse forced to wind up its business? A. They enjoy full autonomy.

Q. They are not obliged to do it? A. No.

By MR. PERREAULT:

Q. When such a liquidation occurred the caisse centrale was not in existence? A. No, the caisse centrale was founded in 1936.

By MR. BROSSARD:

I understand that we will have the opportunity of getting that information in Quebec; if we have it now, it will come to the same thing.

LUCIEN REMILLARD

living in the city of Montreal,
6743 St. Lawrence Street, being
Sworn on the Holy Evangelists,
deposes:

By MR. BROSSARD:

Q. I understand that you are the manager of La Caisse Centrale de Montreal? A. Yes.

Q. What is its exact name? A. La Caisse Centrale Desjardins de Montreal.

Q. You are also the manager of a local caisse? A. Yes, La Caisse Populaire de St-Jean-de-la-Croix.

Q. And director of L'Union Regionale de Montreal? A. Yes.

Q. Could you tell what are the relations between La Caisse Centrale Desjardins de Montreal and L'Union Regionale de Montreal? A. The caisse generale is the financial organization of L'Union Regionale de Montreal. It was founded to enable the application of the statutes of L'Union Regionale in which it is said that L'Union Regionale has to assist the local caisses in clearing or exchanging drafts issued by the members of the local caisses.

Q. The caisse centrale has its own assets? A. It has its own assets.

Q. Where do its assets come from? A. From the deposits of the caisses, from the revenue accruing from the deposits of the caisses, members of the caisse centrale.

Q. Up to what percentage of their own assets do the local caisses deposit with the caisse centrale? A. There is no percentage set in advance. The caisse centrale was founded to help the local caisses in making a profit out of the surplus they had to maintain in other financial institutions to meet the withdrawals of their members. For instance, a caisse populaire has assets amounting to \$100,000. A portion of that money will be invested in loans granted to its members, another portion in bonds in order to keep enough liquid assets in case, for reasons of business, members have to withdraw part of their funds. Normally, that happens in the spring in the country for the purchase of seeds and in the city, for the payment of taxes. Then a caisse must keep a portion of its assets absolutely liquid to meet the withdrawals. Before the foundation of the caisse centrale such funds were deposited in the bank and were yielding one half of one per cent

or one and one half of one per cent.

As the funds of the 169 caisses put together could be invested in easily realizable securities at a higher rate of interest for the caisses locales, the caisse centrale was founded and the caisses are invited to deposit their surplus funds which they will not be able to use immediately but which they may need at any time, with the caisse centrale, the financial organization of L'Union Regionale and to withdraw them when needed.

Q. Does the caisse centrale pay interest on the deposits made by the local caisses? A. Two and one half per cent on a quarterly basis.

Q. Are there many caisses depositing the major portion of their liquid assets with the caisse centrale? A. No; furthermore when a caisse has a rather large sum as compared with its assets, it is advised by the caisse centrale and L'Union Regionale to invest such sum because the objective of the caisse is to encourage local credit.

Q. In other words, the purpose of the caisse centrale is to replace the ordinary banks for the reception of deposits from the local caisses and, on short notice, to effect to them whatever payments they may need. A. In part, yes.

Q. Is there another purpose? A. Yes, because now as in the past, the local caisses are still depositing funds with the local bank for immediate needs. However the surplus which they need absolutely liquid, instead of being deposited in an institution from which it will receive a low interest, they deposit same with La Caisse Centrale Desjardins de Montreal.

Q. And the caisses centrale makes that surplus profit, which enables the caisse centrale to pay its depositors a higher rate of interest than the rate paid by the ordinary bank? A. Yes.

Q. How do the caisse centrale and the local caisses conduct their operations with one another? Through which instrument? A. Through deposits and withdrawals.

Q. How are the withdrawals made? A. By drafts, called cheques, or by the transfer of funds from the caisse centrale to the local bank in the case of funds being sent to the country or to somewhat remote localities.

Q. Now, the caisse centrale transacts only with the local caisses or with a chartered bank? A. Absolutely.

Q. It does not deal with the members of the local caisses? A. Never.

Q. There are no dealings between the member and the caisse centrale? A. No.

By MR. NADEAU:

Q. Does L'Union Regionale accept deposits? A. No.

Q. It cannot accept them. I gather from the affiliation resolutions that the manager of a local caisse is required to deposit the funds of the Caisse populaire either with the caisse centrale or L'Union Regionale. A. There might be a distinction; in Trois-Rivieres, the financial body, which usually goes under the name of caisse centrale, is called, there, L'Union regionale de Trois-Rivieres. That is probably the reason for the above quotation.

Q. Has L'Union regionale de Montreal a budget distinct from that of the caisse centrale? A. Absolutely.

By MR. PERREAULT:

May it please the Commissioners: from a legal point of view, they are two distinct cooperatives; each has its own board of directors. However, the directors are the same.

By MR. BROSSARD:

Q. Does the caisse centrale make advances to the local caisses? A. When necessary, yes.

Q. What do you mean? A. If a local caisse is overdrawn, during a Victory Loan campaign, rather than realize on the securities it may have and on which it would have to realize at a loss at that time, the caisse centrale de Montreal may advance a certain amount based on the guarantees it may give to take care of that situation.

Q. Let us take the case of a local caisse where, at a given time, applications for loans by members, applications for mortgage loans by members come to more than the amount to the credit of the depositors, could the local caisse apply to the caisse centrale for a loan enabling it to make further advances to the members. A. One of the recommendations of L'Union regionale and of the caisse centrale, to all the local caisses that are part of these two organizations, is that they should never borrow for the purpose of lending. And so, in principle, a caisse which has lent all its funds cannot apply to the caisse centrale for the loan of funds to benefit any member or organization.

Q. That is the accepted practice? A. Absolutely.

Q. And it is never departed from? A. No.

By MR. NADEAU:

Q. In short, the caisse centrale is a clearing-house, a liaison agent between other financial institutions and the local caisses? A. Exactly.

Q. Is there a limit to the amount of capital that may be subscribed by a local caisse? A. At the caisse centrale, the limit is \$4,000.

Q. Fixed by your by-laws? A. Yes.

Q. But this limit may be increased to five, six or seven thousand dollars as required? A. Certainly.

Q. Do you charge interest when you make short term loans to the local caisses? A. Yes, we lend at 4 per cent.

Q. And in the case of long term loans, if any, what rate of interest do you charge? A. The case has never arisen of long term loans at a local caisse.

Q. What rate of interest do you charge to a cooperative, to a public corporation such as a parish "fabrique"? A. We never had occasion to lend to a cooperative since the cooperative is not a member of the caisse centrale.

Q. My reference is to the local caisses which, I think, do lend. A. I could not give the exact rate because this kind of operation applies especially to the country. However, I know that at certain places in the country, loans are made to private parties, at 4 and 5 per cent. It would surprise me if the caisses lent at a higher rate to financial institutions.

Q. In your capacity of director of the Caisse Centrale you are in a position to give figures with respect to the distribution of the loans made by the local caisses, first to their members, and then to municipal corporations, religious corporations and cooperatives, etc? A. No, I have not that information.

Q. Who could give the information? A. It could be obtained from the monthly financial report.

By MR. PERREAULT:

Q. You have already asked for statements of loans to cooperatives and corporations. I think we could add loans on promissory notes and those on mortgages. This will have to be obtained from the local caisses because local caisses do not usually give this information.

By MR. NADEAU:

Q. How are the local caisses represented on the caisse centrale? A. At the general meeting, which is always held within 60 days from the end of the financial year, that is after August 31, each local caisse has a representative, who

has the right to vote for the election of the directors, the passing of by-laws and the distribution of profits.

Q. If I understand aright, these directors of the caisse centrale and those of L'Union regionale are the same? A. Exactly.

Q. How many directors are there? A. Twelve.

By MR. BROSSARD:

Unless the Commissioners wish to hear one of the managers of the local caisses, I have no other witnesses.

The CHAIRMAN: Next appearing party?

By MR. BROSSARD:

Mr. Perrault represents a certain number of mutual life insurance companies.

By MR. PERRAULT: The Societe des Artisans- Canadiens-Francais, the Union du Commerce, the Mutuelle-Vie de l'U.C.C, the Union St-Joseph de Drummondville, the Association Canado-Americaine, the Societe de l'Assomption, the Union St-Joseph du Canada.

1. This brief is submitted by the mutual life insurance (fraternal) societies above mentioned in conformity with Part I of the Inquiries Act and order in council P.C. 8725.

The Royal Commission on Cooperatives is a fact-finding body appointed to inquire and report upon the matters set out in the said order in council, so that the parliament of Canada might have in the near future a sound basis for the enactment of laws relating to taxation.

2. These three subjects enumerated in said order in council can be summed up in a more striking way under the two following sentences:

(a) Would it be advisable for the federal government to provide for the application of the Income War Tax Act and the Excess Profits Tax Act, 1940, to cooperatives and cooperative

organizations?

(b) Under the said acts, are certain persons and companies engaged in any line of business subjected to unfair competition on account of the activities of the cooperatives?

3. The mutual life assurance societies or fraternal associations are not generally termed cooperatives. They do not come under the provincial laws or acts relating to cooperatives or cooperative associations.

However, it can be said that these mutual life assurance societies or fraternal associations are cooperatives if they are studied from the economical and commercial angle. May it please the commission, I wish to say a few words. Different organizations, such as the Chamber of Commerce, have filed briefs.

The CHAIRMAN:

You know that this is the first case of life insurance that we have; other companies, elsewhere, have abstained.

By MR. PERRAULT:

Yes, the matter, according to what the President of the Artisans-Canadiens-Francais tells me, was discussed with the mutual life companies, the fraternal associations of Toronto and elsewhere. We thought we would submit a brief for two reasons: The mutuals are organized on the same plan as the cooperatives; they represent a different aspect of the same economic system. The second reason is that, evidently, we do not, under the Income Tax Act, benefit by the same exemption but by a similar exemption. Evidently, if it were decided to do away with the exemption, it is possible that the principle would apply to us. The third reason is that certain bodies, such as the Chambre de Commerce, the Board of Trade, have seen fit to express their opinion which, by pure accident, was unfavourable to the cooperatives. We have

thought it our duty to file an opinion favourable to the cooperatives. That is the reason why we are presenting this brief. Now, I wish to go on with the reading of the brief:

4. The mutual life assurance companies or fraternal associations, in the province of Quebec, come under the Quebec Insurance Act, chapter 299 R.S.Q., 1941.

5. Besides this act, a few of these mutual societies are governed by special acts, as follows:

La Societe des Artisans Canadiens-Francais was incorporated under the federal statute 7-8 George V, chapter 71, as amended by chapter 105, 13-14 George V.

L'Union St-Joseph de Drummondville is governed by chapter 133, Quebec provincial statute 10, George V, 1920.

La Societe de l'Assomption de Moncton was incorporated in 1907 by chapter 78 of the statutes for 1907, enacted by the legislature of New Brunswick.

L'Union du Commerce was incorporated on June 4, 1910, by an act enacted by the legislature of the province of Quebec 1 George V, chapter 87.

6. These mutual life assurance societies or fraternal associations, like any other genuine cooperative, are characterized by the practical application, in their organization, their operations and business methods, of the three following rules:

(a) Freedom to join given to people.

(b) Democratic control of the directors.

Each and every member has the same voting power at the general meetings and neither individuals nor groups of individuals can succeed in controlling the society or association;

(c) The society or association deals exclusively with its own members and it is not a profit making or profit seeking organization.

7. As a matter of fact, these mutual associations like the other cooperatives, enable certain groups of citizens to pool their earnings to help each other. No profit in a real sense can accrue therefrom, as the income of these mutual associations is used in its entirety to defray expenses and meet the payments to the insured members. The surplus earnings are used to lower the cost of the services, in this case, to reduce the premium on the policies or insurance certificates.

When there are surplus earnings, they are forthwith handed back to the members, and each member has his share of such surplus earnings in proportion with the amount of insurance he carries.

Therefore, the aim of the cooperative or mutual system is evident; it provides the citizens, the consumers, with a system of exchange of goods and services in which the middle-man has no place and must disappear. It follows automatically that the insured members of a mutual do not have to pay for the profits that would go to such a middle-man.

It follows logically that the elimination of the middle-man justifies the granting of tax exemptions to cooperatives since the latter make no profits.

8. The cooperatives and mutual associations or organizations lower the cost of the goods and services and increase the purchasing power of their members. This increase of the purchasing power helps the production of goods and services. It is that production that constitutes the prosperity of a country and not the operations of commercial or financial middle-men whom cooperatives render useless. The increased purchasing power also enables a larger proportion of the savings of the people to be directed towards a greater output of producers' goods and of economic capital. Hence, in exempting from income tax and excess profit tax the mutual

assurance societies and the cooperatives, the returns and revenues of the federal government will be larger from other sources as the general prosperity rests on a sounder basis and the personal incomes of the citizens are larger.

9. The foregoing considerations enable us to consider in its true aspect the present position of cooperatives in the matter of the application thereto of the Income War Tax Act, as mentioned in section 1, paragraph "a" of order in council P.C. 8725.

The exemption from taxation provided for them is not a privilege, but a right conferred on them by the Income War Tax Act and the Excess Profits Tax Act, 1940.

10. These tax exemptions granted to mutual life assurance societies or fraternal associations are found in section 4, paragraphs "f" and "g" of the Income War Tax Act (chapter 97, R.S.C. 1927 as amended) and the Excess Profits Tax Act, 1940, section 7, paragraph "a" (4 George VI, chapter 32 as amended).

11. This is a precedent which the federal parliament established in favour of cooperatives.

The economical and social circumstances which prompted the parliament of Canada to exempt these mutual and fraternal associations from the provisions of the Income Tax Act have not changed materially. To-day, it is to the best of advantage of Canada that no change should be made in the provisions on this particular point.

It can be said that parliament has so legislated and enacted these provisions mainly under the impulse of two motives:

(a) It was difficult for the people to associate themselves, with the aim of creating a common and joint fund with their savings and it was still more difficult to obtain the credit required for industrial or financial undertakings,

especially in competition with powerful, wealthy and privileged companies already in existence;

(b) The inherent contradiction that would have been manifest in the taxation of income and profits of cooperative and mutual associations, which were established precisely with the object of doing away with the middle-man in connection with the services to be provided to their members.

12. It is respectfully submitted to this Royal Commission on Cooperatives that these mutual life assurance societies or fraternal associations have to-day vested rights under the Income War Tax Act.

They have now been established and in operation for quite a number of years. It would be an injustice towards these associations to turn their organization topsy-turvy by applying taxes which, in accordance with the expressed will of the federal parliament, they had not foreseen and which they had cause to ignore.

13. The reversal of the taxation and economic policy of the federal parliament to which taxation of the mutual life assurance societies would revolve, would destroy the vested rights of all the members of these associations.

They organized themselves long ago by way of protection against the risks and reverses of life, and parliament has given support to and sanctioned the services they were rendering to the community in exempting their associations from taxation. If taxes are levied on them, the federal parliament will increase the social and economic unrest in the post-war period. Canada's economic prosperity will not be enhanced as a result.

14. In order to justify such a change of fiscal policy, there must also be a change in the economic conditions which could induce the federal parliament to grant these exemptions

of taxes on surplus profits and on income. It would also be necessary not to burden social conditions with new levies and taxation which would be drawn from cooperatives and mutual benefit insurance societies.

15. Mutual societies, mentioned in the present brief, comprised one hundred and seventy-four thousand, thirty-one members (174,031), according to the last complete reports of 1943. Since then, this number has increased. The total insurance in force at that date was one hundred and thirteen millions, five hundred and seventy-six thousand and one hundred and sixty-seven dollars (\$113,576,167.00). The total assets of these societies amounted then to twenty-eight million, eighty-four thousand nine hundred and forty-one dollars (\$28,084,941.00). If the assets are distributed per capita each member of these mutual societies becomes entitled to one hundred and sixty-two dollars and fifty-three cents (\$162.53) of the total assets.

16. These figures - and their proportion has not appreciably varied since 1943 - show the cooperative spirit of mutualists. It is the spirit of economic initiative which has created these popular organizations which are called mutual societies and cooperatives. This sense of responsibility and social solidarity is manifested particularly among the mass of the people and is realized under a totally democratic form.

All civilized governments, particularly in the United States of America, have encouraged since the beginning of the twentieth century, cooperatives and mutual societies. They have acknowledged sensibly that democracy, in order to really function, must not confine itself solely to constitutional endeavours but, and more especially, must be extended to economic and social activities of the people. Cooperatives

and mutual societies are applications of democracy on an economic working plan. Through them may be developed amongst the masses a sense of initiative, of responsibility, a taste for a self-imposed discipline and a spirit of solidarity. Cooperatives and mutual societies render to the community invaluable services in hard cash. The training of citizens who are conscious of their rights and of their social and economic duties is more valuable than all the dollars the government could collect through any form of taxation of income.

17. The parliament of Canada and provincial legislatures have adopted this policy of encouraging and developing cooperatives and mutual societies. Post-war economic and social conditions, especially readaptation of populations to peace-time conditions, will require, more than ever before, of all citizens the very qualities that are developed by these cooperative and mutual associations. Consequently, Canada must have at heart to pursue such a policy of encouragement to cooperatives and mutual societies, more so since the lead already taken by many large private enterprises makes it difficult to gather capital on a broad scale and paralyzes the consumer's initiative.

Conclusion

18. One must remember that mutual societies and cooperatives do away with middle-men.

But what is more important, from an economic and fiscal point of view, is the production and the exchange of goods and services. When cooperatives and mutual societies increase and facilitate these economic activities, the country prospers and the government collects more taxes from other sources, for instance, from customs and excise, sales tax, taxes on individual incomes. What is important is the economic

prosperity of the nation. Freedom of association is one of the principles accepted by the civil laws of democratic states! If the citizens wish to avail themselves of it to form cooperatives and mutual societies for the purpose of running their own affairs without interference from intermediaries, this constitutes an economic and social progress which every government ought to encourage.

19. The authors of the present brief respectfully submit before the Royal Commission of Inquiry on Cooperatives that the parliament of Canada should not modify the taxation policy provided for in the laws presently applied concerning exemptions of taxation and imposts granted to mutual societies and cooperatives: Income War Tax Act, chap. 97, R.S.C., 1927, as amended and the Excess Profits Tax Act, 1940.

The economic and social situation of Canada and post-war reconstruction necessities should not be invoked by the parliament of Canada as a justification for a change of its taxation policy in connection therewith.

20. According to the laws and regulations governing them, mutual life insurance societies are controlled by their members who all enjoy the same rights. That is a democratic control. All surplus receipts over disbursements are paid to the members, after provision has been made for a reserve fund as provided by the law. There are no profits, the mutual system supplying its members with reduced cost services.

21. To apply the Income War Tax Act and the Excess Profits Tax Act, 1940, to cooperatives would constitute an enroachment on freedom of association. It would amount to an injustice towards cooperatives which would then have to pay a double personal tax.

Finally, to tax incomes of cooperatives and mutual societies would decrease the purchasing power and the economic activ-

ities of consumers and producers as a whole. It would be an injustice towards cooperatives which would then have to pay double personal tax.

Finally, to tax incomes of cooperatives and mutual societies would decrease the purchasing power and the economic activities of consumers and producers as a whole. It would affect the revenues of the federal government. It would amount to an attempt to hinder the economic progress to the advantage of certain vested interests and to the prejudice of the greater number.

The whole respectfully submitted.

Montreal, this 12th February, 1945.

Jacques Perrault,

Counsel for the appearing societies.

By MR. PERRAULT:

I have here with me Mr. Pare, president of the Societe des Artisans Canadiens-Francais and Mr. Belzile, managing director of the Mutuelle de L'U.C.C.

The CHAIRMAN:

We have no need of witnesses..

By Mr. NADEAU:

I would like to ask two little questions. To what extent would you recommend to do away with the middle-man you have mentioned?

By MR. PERRAULT:

It is a situation we note.

By MR. NADEAU:

You do not advocate doing away with all middle-men?

By MR. PERRAULT:

No.

By MR. NADEAU:

Don't you think that economic conditions have changed

considerably since 1930? You say that living conditions have not changed.

By MR. PERRAULT:

The economic conditions which led the federal parliament to vote those exemptions. I do not mean to say that economic conditions have not changed. There are two phases to consider. It is understood that at the present time the government has a greater income for the nation's welfare, and it will be the same after the war. But, with the cooperative system such as it is being developed, from the fiscal point of view, while you increase the purchasing power of the masses, you are giving the federal government more income from the sales tax, the excise tax and the personal income tax.

The CHAIRMAN: The war has brought many changes. Your argument is based on ideal conditions but the war has changed the taxation system of the country.

By MR. PERRAULT:

I think that conditions which led the federal government to vote those exemptions have not changed.

The CHAIRMAN: That was before the war.

By MR. PERRAULT:

But I understand that they will be particularly acute in the period of post-war reconstruction.

By MR. NADEAU:

Don't you think that since 1930 cooperatives have enjoyed a tenfold increase in volume of business?

By MR. PERRAULT:

Obviously; it is a matter of statistics. If you consider the increased volume of business in relation to the number of members you will find that both their number and their volume of business are lower. Thus, in the brief I have just filed. if you take into consideration the fact that in 1935

cooperatives had 9,000 members against 56,000 now, while their assets have increased from two million to seventeen million dollars, one can say that the volume of business of cooperatives has decreased in relation to the number of cooperators.

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MR. PARKER: Mr Chairman, I have been furnished with what purports to be a correct English translation of the brief just read into the record by Mr. Perrault. I wonder if he would be good enough to tell me if that is a correct translation -- just the last page I am referring to.

MR. PERRAULT: There is a word here -- it is not "denial" of freedom; it is a restriction.

MR. PARKER: Well, is the rest of it all right?

MR. PERRAULT: Yes.

MR. PARKER: As I understand it, Mr. Perrault, you prepared the original brief; is that correct?

MR. PERRAULT: That is correct.

MR. PARKER: Which is signed by you; and you also prepared the translation?

MR. PERRAULT: That is correct.

MR. PARKER: And with the change of one word in the third line of the twelfth page of the English version I assume that the translation is correct?

MR. PERRAULT: Yes.

MR. PARKER: The word "denial" is changed to "restriction". Although I realize Mr. Perrault is not appearing as a witness, I wonder if he would be good enough to explain in a word, in what way the imposition of a reasonable tax would restrict the freedom to establish lawful association. It seems to me to be pretty strong language to go on the record of this commission. Perhaps at the same time he would explain, if he cares to, the last three lines of the brief -- in what way it is an attempt to stop economic progress for the sake of certain vested interests: what the vested interests are that he is referring to there.

MR. PERRAULT: I will explain it with pleasure,

Mr. Parker. Of course as I said at the beginning of the reading of this brief to this honourable Commission, the brief submitted by these mutual or fraternal life associations is rather in sympathy with the cooperatives, just as boards of trade and chambers of commerce have presented briefs that are not always of course along the same lines as the briefs submitted by the cooperatives.

The two sentences you refer to at the end of the brief can be explained thus, and this is the spirit behind it. We submit that the freedom to establish lawful associations would be restricted compared to the situation as it is now. Of course there is not only the fiscal or taxation aspect of this question; there is also the economic aspect, and in economic sciences it is a well-known principle that it is very hard at the beginning of any undertaking to constitute a large capital; therefore if people want to form an economic association, whether a consumers' cooperative or a producers' cooperative or any kind of mutual association, it would be hard for them to associate for an economic purpose or an industrial purpose or a business purpose if they have not certain help from the community. The community of course is only a theory; in practice it must be the government, and the government helps them through the law as it is now in the Income War Tax Act. Therefore I submit that under the actual economic system --

MR. PARKER: That is, they cannot become established without government assistance; is that your argument?

MR. PERRAULT: Well, yes, it is. Of course in the art as it is now, the economic art, it is very hard to find working capital for any undertaking. Do I make myself clear?

MR. PARKER: Well --

MR. ELLIOTT: Is this the point: that it is more

difficult for a cooperative to obtain capital initially than for any other corporation, and consequently in the beginning they have less ability to bear taxes?

MR. PERRAULT: As a matter of fact cooperatives are generally constituted among the lower classes of the population, and therefore if they want to exercise their freedom of association -- workers, for example, or farmers, who are not very rich -- if they want to exercise that freedom of association for an industrial or commercial or financial purpose, it will be very hard for them to find working capital.

MR. ELLIOTT: We have been told many times that it is difficult to establish a cooperative in the beginning.

MR. PERRAULT: Yes, and therefore it is in that sense, I think, that a change in the Income War Tax Act and the Excess Profits Tax Act would be a restriction of the freedom of association, for economic or industrial or financial or commercial purposes.

MR. ARNASON: You mean it would tend to discourage the organization of cooperatives?

MR. PERRAULT: Yes, that would be more correct.

MR. BROSSARD: It would render more difficult the exercise of the right of freedom of association.

MR. PARKER: Exactly in the same way that taxation renders the organization of any other kind of business a little more difficult. Is there any difference?

MR. PERRAULT: Yes; of course in theory there is no distinction, but as a matter of fact, for example, when certain people form a company and they succeed in obtaining more easily large capital, it is not the same situation.

Now, the other sentence in reference to which Mr. Parker asked me for an explanation is I think the last

sentence of the brief: "It would be an attempt to stop economic progress for the sake of certain vested interests to the disadvantage of the country at large."

MR. PARKER: What are the "certain vested interests" referred to there?

MR. PERRAULT: This is not of course a statement of fact; it is only the opinion of the cooperators and perhaps of these mutual associations. "Vested interest" is not to be taken in a sens pejoratif. The economic system has developed not only in Canada but in the United States and all modern countries on the basis of a system which is characterized by the Companies Act in Canada and in the United States. They acquired through various means, through of course commercial and industrial and financial activities, certain large assets and certain interests in that economic system, and they have obtained that through privileges. Yesterday in presenting another brief I mentioned for example section 88 of the Bank Act. This is a privilege given to ten companies in Canada; of course they have a privilege which other financial organizations do not have, and they can use that to accumulate large assets -- in a very legal and honest way, of course, for the benefit of the community; I do not deny that. But you have these vested interests that have started before; and especially with the industrial revolution of the eighteenth century -- it might seem pretty far fetched, but it has accumulated until the twentieth century. Now if a new form of economic association or a new form of economic system like the cooperative system wants to develop, it is very weak compared with the other system which has been in existence for over two hundred years. Mr. Beauregard plinted out the other day as far as farmers cooperatives

are concerned the difference between the budget, the total amount of transactions of the cooperatives, \$247,000,000 if I remember well, and the total of transactions of other companies or ordinary organizations, over, if I remember well, \$1,600,000,000.

So this is what I meant by the last sentence of the brief. With a traditional system which has existed for the last two hundred years, and with a very weak cooperative economic system that is developing in Canada, if you change your law then I think it would be for the advantage of the vested interests and to the disadvantage of the country at large, because the number of cooperatives now in Canada is I think fairly representative of the community of Canada.

THE CHAIRMAN: I am still of the opinion, Mr. Perrault, with the greatest deference, that this brief does not add much to our discussion. Your other brief, yes; this one, no. That is my opinion; I am speaking for myself.

MR. BROSSARD: I suggest, my lord, that we adjourn until this afternoon, and that we hear this afternoon the Brokers' Association and the Chamber of Commerce, which are the only two briefs remaining.

THE CHAIRMAN: Are you willing to lose twenty-five minutes?

MR. BROSSARD: I do not know that the representatives are here.

MR. VAUGHAN: I should like to ask Mr. Perrault one question with regard to the second paragraph on page 12 of his brief. You say, Mr. Perrault: "Above all, taxation on the income of cooperatives and of mutual assurance societies or fraternal associations would lessen the buying power and the economic activities of the whole community of producers and consumers." Well now, what distinction

do you make between that and the taxation that applies already to companies paying taxes? Or put it this way: would that same conclusion apply to companies already paying taxes -- that it lessens the buying power and the economic activities of the whole community of producers and consumers?

MR. PERRAULT: Well, this is what we have in mind, Mr. Commissioner. The central or essential idea of the cooperative is that it suppresses the middleman.

MR. VAUGHAN: What do you mean by the middleman?

MR. PERRAULT: You take for example a cooperative which agrees to exchange services without paying anything for the services the middleman would render them. An industrial undertaking that would provide them with the same goods or the same services would charge what they thought that service cost or should return to them.

MR. VAUGHAN: But you use services, do you not, in your organization? You pay help, you pay salaries; wouldn't that be a middleman?

MR. PERRAULT: Yes, but he does not make any profit.

MR. VAUGHAN: He gets a salary, doesn't he?

MR. PERRAULT: It is impossible to go without salaried employees; we must pay salaries or wages to these people that are acting for the cooperative. What I mean is that it is only salaries that we are paying; we are not paying in money that can be labelled in any sense of the word as profit. If a mutual association or fraternal association or a cooperative pay a full-time manager \$6,000 a year by way of salary, they are not paying his living expenses in the general sense of the word, plus profit that he may derive.

MR. VAUGHAN: By the middleman you really mean profit, do you?

MR. PERRAULT: Yes -- not in the bad sense of the word.

MR. VAUGHAN: There is no reference to the employees at all?

MR. PERRAULT: No.

MR. VAUGHAN: Well now, that is one point --

MR. PERRAULT: If you will allow me to explain further, I mean by the middleman one who buys and sells with profit either goods or services.

MR. VAUGHAN: Now, the other point I wished to ask you about was with regard to lessening the buying power. If taxation would lessen buying power in a mutual life company or cooperative of any kind, would you not say that buying power has been lessened already in places where there is taxation -- those companies that pay taxes?

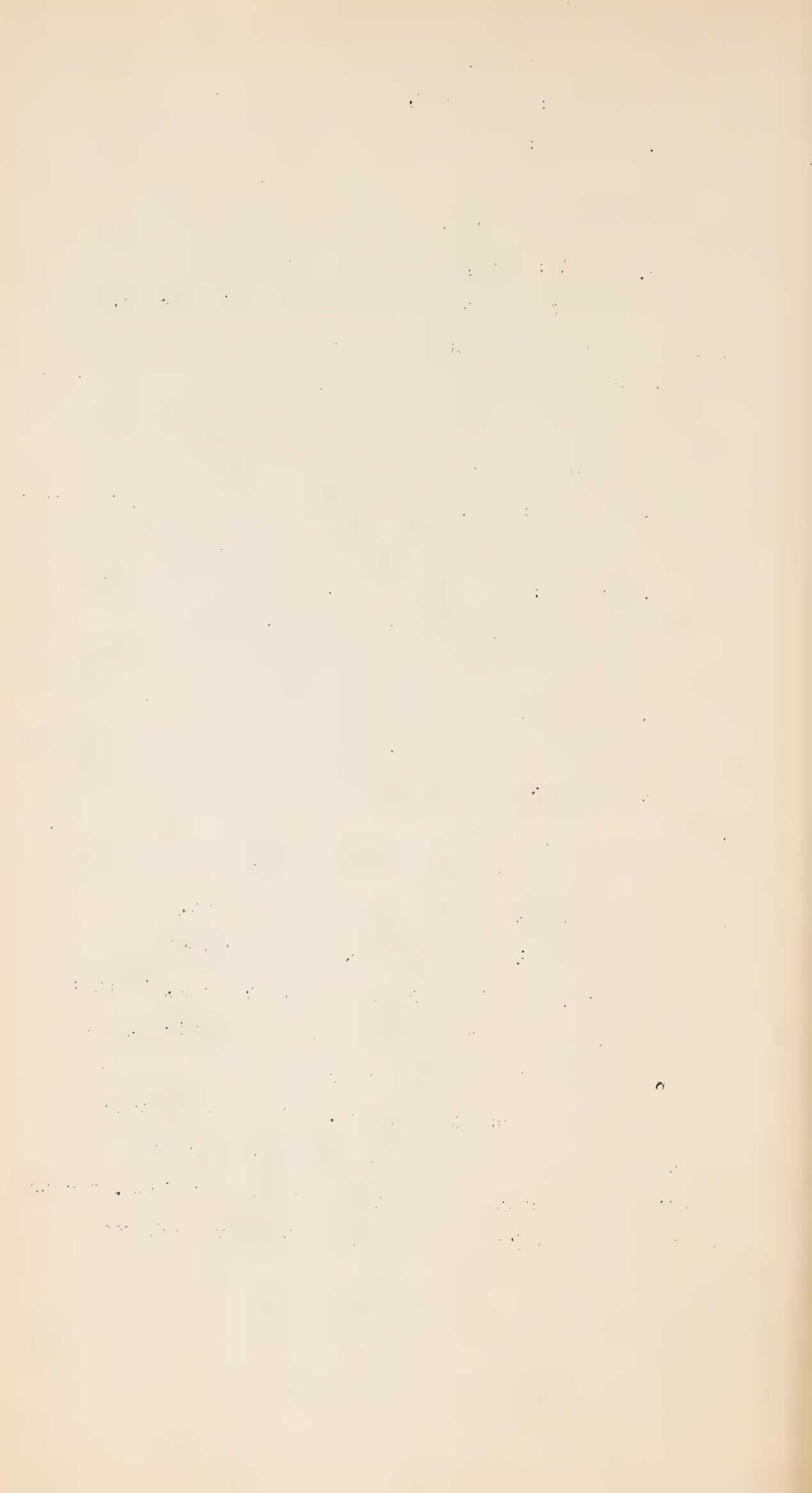
MR. PERRAULT: Yes, to a certain extent the buying power of the companies as such has been lessened.

MR. VAUGHAN: In other words, if there were no taxation the buying power would be much greater; is that what you mean?

MR. PERRAULT: Well, of course I do not advise that we should have such a system.

MR. VAUGHAN: I do not see why that applies to cooperatives any more than it does to business generally, because if there were no taxes the buying power would be very much greater, according to your argument.

MR. PERRAULT: But you see, what is important for the community, if I can express myself clearly, is that there should be an exchange of goods and services, and the lower the cost of those goods and services the better it is for the community at large. If we can produce at cost, therefore we can produce more goods and more services and exchange more goods and more services, because the consumers won't have to pay so much for each good



and each service he has obtained from somebody else. Therefore he has more money because he pays less in profit to the middleman; therefore he will have more money to buy other goods or other services.

MR. VAUGHAN: Yes, I know what you mean, but that same argument would apply, would it not, to business as a whole, that if you reduce taxation as a whole there apparently would be more money to spend on goods and services. But as it happens, the government cannot do without taxes.

MR. PERRAULT: You are right, Mr. Commissioner; but the only source of revenue to the government is not the income tax. I know we should not speak of that, but it might be better to lower the income tax and raise other taxes, for example the sales tax. That would perhaps be fairer to everyone.

MR. VAUGHAN: I notice you mention here two other sources -- customs and excise taxes.

MR. PERRAULT: There is only a reference to it in the brief. Of course we are concerned here with the Income War Tax Act and Excess Profits Tax Act, 1940. I just mentioned at page 11 of the brief, at the beginning of the page, first paragraph, that the government would collect more taxes from other sources than income tax -- customs, excise, sales tax, et cetera.

MR. VAUGHAN: Well, when you speak that way, do the people whom you represent, say the farming community, feel they would be satisfied to pay more customs duties and higher sales taxes?

MR. PERRAULT: There are two angles to that question, Mr. Commissioner. If there is less profit and more buying power, without raising the rate of sales tax or excise or customs taxes, necessarily, they will bring a larger return

to the government because the people will buy more of goods and services.

MR. VAUGHAN: Yes, that is quite true, but the government must get revenue in some way, and if they cannot get it in one way they must get it in another. You suggest that customs tax and sales taxes might be increased rather than taxes derived from other sources; does that meet with the approval of your people, the people whom you represent, do you think?

MR. PERRAULT: That would mean, I think, another royal commission to inquire into sales tax and customs and excise duties.

MR. VAUGHAN: You mention that as an alternative. I wondered what your authority was for stating that.

MR. PERRAULT: We were prepared to establish, for example, and it was established I think a moment ago by another witness that the Central Credit Union for the region instead of paying one and a half per cent interest on deposits were paying two and a half per cent, and if a man receives one per cent more on his deposit of course his buying power is that much larger. The same thing for the mutuals; we were prepared to establish that our premiums were lower than other premiums, and not only that, but each year there is a patronage dividend, if I may call it that, one-twelfth of the premium, which is already much lower for the same amount of life insurance. So if you give the same service for less money, your customer has more money; therefore instead of paying \$500 for an automobile he will buy a \$800 one, and without a higher sales tax rate he will pay more to the Federal government, in paying more for his motor car. That is what I mean.

I didn't suggest in this brief that the sales tax should be higher, but I suggest that if through the cooperatives you have more money left with the consumer after he has paid for the goods and services, he will buy more goods, and in buying more goods necessarily the Federal government, with the same rates as they are now, will collect more on its sales tax, its customs and excise duties. That is what I meant.

MR. VAUGHAN: Just one more question. You mention mutual companies in general -- mutual life companies?

MR. PERRAULT: Of course it might not be a very exact translation. In the province of Quebec we use the word "mutuelle"; our laws speak of mutual life or mutual assurance, and there are fraternal associations. To be exactly on the same basis as in the other provinces it should be understood as being fraternal life assurance societies. But our laws use the term "mutuelle"; so I take in English the same term as our English version of the law.

MR. VAUGHAN: It is not supposed to include, then, the rather large mutual life insurance company?

MR. PERRAULT: No, speaking only of the fraternal associations.

MR. ELLIOTT: With regard to the diminution of purchasing power, Mr. Perrault, what would you say to the statement we have heard so frequently of late, that one of the main reasons for taxation in our financing is to diminish purchasing power? That is given as one of the main reasons for financing so largely by income taxes rather than borrowing.

MR. PERRAULT: During this war we are under peculiar circumstances that are going to end. During the war we must try to diminish the purchasing -- I would not say the purchasing power; I would say the purchasing abilities

of the people, in encouraging more savings and more investments on future production. But under normal circumstances the purchasing power of the people should be higher. I do not mean the purchasing power of the money; that is not my idea-- it is the purchasing power of the ordinary citizen. If he pays less for one service or one good, he will buy more of other goods and other services. And that I think is to the benefit of our community, because we need an expanding economy as much as possible; therefore the more there is of purchasing power on the part of the ordinary citizen, the more prosperous the country will be.

MR. ELLIOTT: But under present conditions the reverse situation is true?

MR. PERRAULT: Of course, but these are not normal circumstances. I understand that the new laws will be drafted for normal circumstances.

At 12.30 p.m. the Commission adjourned until 2 p.m.

Afternoon Session

The Commission resumed at 2 p.m.

By MR. BROSSARD: We will proceed with the brief of La
Chambre de Commerce du District de Montreal.

ROBERT PERRON

living in the city of Montreal,
1833 Sherbrooke Street West,
after being duly sworn, gives
evidence.

By MR. BROSSARD:

Q. What is your occupation? A. Assistant secretary to
the Chambre de Commerce du District de Montreal.

Q. This brief being filed by you on behalf of the Chambre
de Commerce was prepared by a special committee? A. Exactly.

Q. This special committee had been entrusted with the
task of studying the question in view of submitting the brief
to the commission? A. Yes.

Q. In your brief you state that this special committee
was composed of representatives from ordinary enterprises
and of representatives from cooperatives. Would you tell us
exactly what you mean by representatives from ordinary
enterprises by opposition to representatives from cooper-
ative enterprises? A. I mean enterprises which are not cooper-
ative.

Q. Were the representatives from ordinary enterprises, as
you say, in the same number as the representatives from coop-
eratives? A. No, because obviously the Chambre de Commerce
is mainly composed of people who are engaged in ordinary
enterprises and the number of people belonging to cooperatives
is smaller. But proportionately, I think that cooperatives

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were very well represented.

Q. But in smaller number just the same? A. In the minority.

Q. Anyway, the composition was not imposed? A. We invited application from the members of the Chambre who were able to sit on the commission.

Q. How many members were in the committee? A. About thirty.

Q. How many of those were what you call representatives from cooperatives? A. I could not say exactly. There were evidently, as representatives from cooperatives, some people who are not themselves engaged in our business; they are rather looked upon as people who are sympathetic to cooperatives.

Q. Are those you call representatives from cooperatives, people who were merely known as sympathetic to the cooperative movement or were there among them any representatives from cooperatives? A. I can give you the names if you like. There were people sympathetic to the movement and people belonging to cooperatives, interested as managers or directors of cooperatives.

Q. Of local cooperatives? A. Yes.

Q. Among the some two thousand members of the Chambre...
A. We have 3,500.

Q. Among your members, are there many who are interested directly and personally in cooperative enterprises? A. No, not very many; there are a few, I think.

Q. A small minority? A. Yes.

Q. Is this brief you are filing the brief prepared by this special committee entrusted with study of the question?
A. The committee discussed the broad outline of the brief and the decisions were taken by the committee. I was given the task of drafting it.

Q. After being drafted up in its present form and terms,

was it approved by the committee? A. I prepared a draft which was submitted to the special committee in charge of the question and they made the changes deemed necessary and, after being revised by the special committee, the draft was submitted to the general Council of the Chambre which made further changes.

Q. Now after having been submitted to the special committee and modified by them, was it approved or modified by all the members of that committee or merely by a majority of them? A. The brief was adopted by the whole committee; nobody took exception to it.

Q. Including the members who were supposed to represent the cooperatives? A. I must say that there were none at that meeting.

Q. That is to say that this brief was not approved by the members of the chambre who are sympathetic to the cooperative movement? A. No.

Q. Was it submitted to all the members of the Chambre de Commerce? A. It was submitted to a special meeting of the Council of the Chambre.

Q. And unanimously approved by the members of the special meeting? A. Although certain members at the beginning of the meeting made a few remarks, all the members approved the brief when the meeting ended.

Q. Was it submitted to the 3,500 members of the chambre? A. According to the usual procedure followed in similar cases.

Q. Am I right in saying, therefore, that this brief represents only the opinion expressed by a majority of the members of a committee of the Chambre de Commerce de Montreal as well as the opinion expressed by a majority of a special committee instituted to study the problem? A. If one goes

by the usual procedure followed when a similar question is submitted to a special committee of the chambre and approved by the council, but decision is supposed to represent the majority.

Q. You claim that the council represents the opinion of the majority of the members? A. Yes, the opinion of the whole chambre, according to the by-laws of the Chambre de Commerce.

Q. Nevertheless, you have published in the last letter of the Chambre de Commerce a summary of the main suggestions you wished to make? A. Yes, we published a summary which we sent to the commission and we received no complaint, no protest.

The CHAIRMAN: Will you please read your brief.

The WITNESS: The Chambre de Commerce du District de Montreal has 3,425 members distributed among 300 different professional classes.

It was founded in 1887.

It holds its legal existence from the Boards of Trade Act (Ch. 19, Revised Statutes, 1927) and from the special federal statute (Ch. 88, 58-59 Victoria).

It represents a certain number of business associations and certain groups of business men incorporated into self-governing associations under the by-laws of the chambre, such as the following:

1. The Wholesale Grocers Association of the province of Quebec which represents 96 per cent of the wholesale grocery trade of Quebec;

2. The section of grocers and butchers of the Chambre de Commerce;

3. The section of furniture dealers;

4. The section of tobacco dealers.

It contains groups of business men not only from Montreal but from towns outside the metropolitan area and even from the province of Quebec.

It has authorized the business men of Lachine and Verdun to form themselves into local economic councils organized under its by-laws.

The Chambre de Commerce de la Province of Quebec which comprises 82 chambres de commerce of the province and which is incorporated under the Dominion Act 9-10 Edward VII, Ch. 99, and which represents about 18,000 business men of the province, endorses the brief hereafter submitted.

Preparation of the Brief

Following a recommendation of the Chambre de Commerce de la Province de Quebec to its constituent associations, the Chambre de Commerce du District de Montreal assigned to a committee the task of inquiring into the business methods employed by cooperatives in the province of Quebec. It instructed that committee to study how cooperatives are working and to determine in what way and to what extent they compete with private enterprise.

This committee, composed of representatives from ordinary enterprises and representatives from cooperatives, held at least ten inquiry meetings. Later, this committee was supplemented by another committee composed of chartered accountants and income tax specialists. After six joint meetings, a special meeting of the board of directors of the Chambre de Commerce was called to receive the brief which will be found in the following pages. The board of directors of the chambre has approved this brief.

Divisions of the Brief

This brief is divided as follows:

Definition of the Cooperative

Principle of Discussion

Advantages of the Cooperative According to the Statements of Those who are Sympathetic to it

Disadvantages of the Cooperative according to the Statements of those who are opposed to it

Distinction between the Cooperative and the Joint Stock Company

Patronage Dividends

1. Distinction between agricultural cooperative associations and cooperative syndicates.

2. Cooperative tradition in respect of refunds.

3. Patronage dividends and the income tax.

Statutory Reserves

The Return on Capital by Cooperative Enterprises

Tax Exemption Prejudice

Conclusions

Recommendations

Definition of Cooperative

As with social classes, so too with individuals, the word "cooperative" does not mean exactly the same thing, and does not connote the same idea. The cooperative is at one time an enterprise free from all connections with the state; at another time it means a state concern; for others it will be an aspect of socialism, whereas for others again, it is a bulwark against socialism itself.

For lack of a definition agreeable to all, it can be said that the cooperative is a form of private enterprise grouping individuals, while the main objective of the company is to group capital.

The cooperative differs from the capitalist enterprise by the following characteristics:

1. It is not a profit-seeking organization, but it is established to meet the needs of its members;
2. The distribution of surplus known as "patronage dividend" is made in a cooperative in proportion to the turnover of each member and not in proportion to the invested capital;
3. The vote at the meetings of the cooperative is not based on the number of shares held. Every shareholder, whatever his number of shares may be, is entitled to one vote only;
4. The cooperative endeavours to develop among its members social and disciplinary senses through education which is an essential element of its organization.

Principles

Advantages and Disadvantages of the Cooperative

The cooperative, according to its opponents or sympathizers offers a number of advantages and disadvantages.

Without deciding between opinions in this respect, the Chambre de Commerce du District de Montreal admits that the cooperative system is in itself a sound doctrine.

Regardless however of the good feelings you may have toward the cooperative, it must be recognized that it performs a commercial duty and that as such it must be subject to the same taxes as are levied on the business concern.

Should the cooperative disappear by reason of being subjected to the same taxes as its competitors, you would have to acknowledge the marked inferiority of its principles and business practices. This is however an unlikely contingency, as mentioned in an article of the "Coopérateur" of January, 1945, which concluded as follows: "The cooperative system does not ask for any favour, nor request any privilege. However, fully aware of its strength and mission, it does not

expect to be hindered in its expansion. The tax is not an obstacle which will find it unarmed.

Advantages of the Cooperative According
to its Sympathizers

(a) The cooperative is a free enterprise which has a right to existence. Anybody may join or leave it whenever he likes, subject of course to the restrictions that may be placed on those principles by free agreements between the parties.

(b) The application of those principles of competition does not in any way prejudice other kinds of enterprises. Its action on the price of goods is of an altogether economic nature, and any one is free to refuse his personal profit to distribute it to the purchasers of the products sold by him.

(c) The cooperative develops the sense of individual responsibility of the members belonging to it. Each individual being unable to delegate his right of vote, has more opportunity than in a stock company to exercise his own initiative and therefore has more duties than the shareholder of a company.

(d) The cooperative educates the common people and tries to develop the social sense among individuals. It is through the study committee that it tends to expand. That education of the plain people constitutes an eminently useful undertaking.

(e) There is no price competition in the cooperative. Its formula is to deal at the market price. Its members benefit in turn, at the end of the fiscal year, in the ratio of their volume of business, by the patronage dividend. In the case of the consumer cooperative, the patronage dividend is computed on the "overpayments" of the cooperative which, according to the meaning given to this word by the cooperator, cannot in any way be called a profit. The "overpayment" is the differ-

ence between the cost price of goods plus charges, and the selling market price paid by the members. This difference between "cost" and "selling" is not a profit but belongs, as a matter of fact, to each of the members. This is what is refunded to them at the end of the fiscal year, and is called "patronage dividend".

(f) The cooperative appears as a help to average people and as a means to save the country from socialism.

(g) The cooperative does not interfere with independent business. Experience shows that in all countries where the cooperative developed, independent business has continued to increase. The cooperative has undoubtedly brought about a new balance of economic powers. Individuals had to give up their own business, but they have started other ones and assumed new economic functions. This competition of the cooperative would not be more prejudicial than that entered into by a newcomer in the same type of business.

(h) The cooperative appears as a means of creating capital in countries ill provided for in that respect. The example of Finland and Sweden indicates that those countries, in which a great part of the enterprises were owned by foreigners, succeeded in recovering their economic control through the cooperative.

Disadvantages of the Cooperative,

According to its Opponents

(a) Ordinary enterprise has developed to a high degree the standards of living and the circulation of goods.

(b) The cooperative hampers private enterprise. Due to its development, many enterprises have disappeared which rendered real services to the consumer. The assumption that the cooperative is not more prejudicial than the competition entered into by a newcomer in the same type of business, is

false because the cooperative enjoys special privileges from governments, which in some instances allow it to engage in an unfair competition.

(c) The cooperative opposes itself against private initiative. The individual who established his business tries to make it prosper, and then endeavours by all means to distribute the largest possible number of goods. The cooperative, on the contrary, instead of developing needs, merely meets the needs of its members.

The history of economic development during the last fifty years shows that the price of goods has decreased thanks to the increase of the purchasing power and the requirements of the population. The cooperative which, as a rule, meets the needs of its members rather than it attempts to create them, does not put forth so much zeal to develop the needs of the population. Those needs, when left to themselves, finally tend to diminish and thus to lower the standard of living.

(d) The cooperative interferes especially with small business. The small enterprise which has to close its doors, particularly when it is located in a small town or village where its customers are composed of individuals who become "cooperators", is closed overnight.

(e) The cooperatives in the province of Quebec have not proved better managers than ordinary enterprises. Many cooperative enterprises have failed or disappeared since 25 years.

(f) The cooperative enjoys, owing to its status, tax exemptions which place ordinary enterprises at a definite disadvantage in that respect, especially since taxes are so heavy. Certain cooperatives have set up reserves which could not have been built without those tax exemptions.

Distinction Between the Cooperative and the Limited Company

If, considering the cooperative regardless of the disadvantages or advantages it may offer, we try to establish a distinction between cooperative and ordinary enterprise of capitalist type, we must first take into account that business practices of cooperatives with adherents or non-members, are absolutely the same as those of ordinary enterprises operating the same type of business.

1. The cooperatives buy the products of their members to sell them in the open at the market price, or they buy on the open market goods they sell to their members, also at the market price.

2. Just as the ordinary enterprise, the cooperative, according to its importance, has a staff composed of a manager, an accountant, clerks and so on.

3. It keeps a set of books which shall be audited at the end of the fiscal year.

4. Just as the ordinary enterprise, it will set up reserves to replace its equipment, machinery and so on.

5. The members of a cooperative, like the shareholders of a limited liability company, are liable only to the extent of the capital subscribed by them.

So that, in practice - and more particularly with regard to the difference in status of the two types of enterprises with reference to income tax -- the cooperative differs from the business concern, not by the way of doing business, but by the manner of dividing the surplus resulting therefrom.

This leads us therefore to consider the three following points:

- I - Patronage Dividends
- II - Setting-Up of Reserves
- III - Return on Capital

I - Patronage Dividends

In order to clarify our statement on patronage dividends, we have divided it into three parts:

First Part

Distinction between cooperative agricultural associations and cooperative syndicates

Before giving the definition of a patronage dividend as it follows from the practice of cooperative operations in the province, it is useful to draw a distinction between cooperative agricultural associations under chapter 120, R.S.Q., 1941, and cooperative syndicates incorporated under chapter 290 of the same statutes.

Second Part

The spirit of cooperation in the matter of patronage dividend

Once the distinction made, we have tried to establish what was the tradition of the cooperative in the matter of patronage dividend independently of the letter of the provincial acts governing it.

Third Part

The patronage dividend and the income tax

In the third part, we have tried to discuss the problem raised by the patronage dividend in the matter of income tax.

- I -

Patronage Dividends

Distinction Between the Cooperative Agricultural Associations and the Cooperatives Syndicates

Cooperative Agricultural Associations

The cooperative agricultural associations are collective services organizations whose activities refer to the production and sale of agricultural products for the collective advantage of its members. The latter got together with a view

to securing for their products the best selling price, deduction made of the collective expenses incurred by the cooperative association to assure the progress of its business. Usually, the cooperative association does not buy but receives consignments of products shipped by its members to be sold on its markets. A portion of the proceeds of the sale is given to the member when the sale is made and he receives the balance at the end of the year when its share of the operating costs of the association is deducted.

We may then conclude that in the present case, the patronage dividend is a balance of revenue which could be an element of profit only in the hands of the members who receive it.

With regard to the cooperative agricultural associations incorporated under chapter 120 the patronage dividend is governed by section 25.

Cooperative Syndicates

With regard to cooperative syndicates incorporated under chapter 290, already quoted, the patronage dividend is governed by section 38, which, incidentally, is worded in terms such that they may result in an interpretation contrary to that one would like to see linked with the practice of cooperation. Generally, the matter under consideration here refers to the consumer field in which syndicates of the Rochdale type operate ... "La Familiale" of Montreal seems to pretty well illustrate that type. The members, instead of being sellers, are purchasers and usually are not in business themselves, consequently the refund which the syndicates may give them at the end of the year, represents for them a reduction of their cost of living and cannot be taken into account in the preparation of their income tax report.

As far as the syndicate itself is concerned, section 31, already quoted, stated that: "The general meeting shall

determine the amount of the profits which it shall allot".
Such terms can be interpreted differently according to the letter of the act, or the cooperative spirit of the same act.

Spirit of the cooperative in the matter of patronage dividend

As a matter of fact, if one rests on the spirit of the cooperative rather than on the letter of the provincial acts which govern it, it may be said that it is understood between the cooperative and its members that transactions are done at current prices only to simplify matters. In reality, transactions are supposed to be done at cost price plus costs. It is on account of that tacit agreement that the patronage dividend should be considered as an adjustment of prices, that is to say as an expense and not on account of the principle that it is impossible to make a profit out of oneself. This principle could hardly apply in the case of the cooperative incorporated as a limited liability company and which is then a moral body distinct from its members. The cooperators dealing with their cooperative are in the same position as a person buying from a company of which he is a shareholder.

It follows from the foregoing that the profits not distributed in patronage dividends should be taxed. Such profits do not belong to the members individually but to the cooperatives as an enterprise. In the case of distribution of the cooperative's assets, the accumulated surplus is absolutely of the same nature as the profits of a corporation. It is used generally to create reserves or as return on capital.

The patronage dividend and the income tax

According to section 4P of the Income Tax Act, cooperative syndicates are allowed to transact 20 per cent of their business with non-members. The profits made by the cooperative on such transactions with non-members (which profits, like the others, are not taxed) may allow in certain cases to pay the

es, reate

expenses, create reserves and return on the capital invested so that the profits accruing from transactions made with the members may be returned to them totally or almost totally. Such a patronage dividend would be necessarily lower if the cooperative would deal only with its members, which means that, directly or indirectly, the patronage dividend is composed of a portion of the profits realized with the non-members, of which it is very difficult, not to say impossible, to estimate the importance.

Consequently the patronage dividend is not only the reimbursement of the surplus made on transactions with members. It can be assimilated to the discount granted by some ordinary commercial enterprises and based upon the volume of business.

It is to be noted, however, that in determining the amount of the dividend, the general meeting may decide that only a portion will effectively be distributed to members, the other portion being at the disposal of the cooperative and forming a kind of a loan from the enterprise to the members who compose same. Such a loan has not the same character as a loan contracted by ordinary enterprises, in the same sense that, on the one hand, the lender has not necessarily given his consent, and that, on the other hand, he cannot demand the reimbursement.

For the above-mentioned reasons, a distinction should be made between -

1. The patronage dividends effectively paid to the members, which dividends retain, ipso facto, the character of a discount based on the volume of business and,
2. The patronage dividends held by the cooperative, which rather should be assimilated to undistributed profits.

- II -

Statutory Reserves

Both acts of the province of Quebec already quoted, provide for the setting up of reserves generally known as "general reserves" and "provident reserves". Both reserves being of a general character could give rise to objection with reference to the practice set in the application of the Income Tax Act which permits to recognize only as expenses, reserves set up for clearly determined and well defined conditions. Such are, for instance the reserves for depreciation of productive investments such as buildings, machinery, equipment, etc., and reserves for doubtful accounts.

It would be well to define or to determine the terms actually used in the balance sheets of cooperative associations or cooperative syndicates, so that they would have the same meaning as those used by enterprises paying tax.

- III -

Return on Capital

With reference to cooperative agricultural associations governed by chapter 120, the capital invested in the enterprise comes from common and preferred shares. The act provides for the payment of interest on the capital derived from either source. The act uses even the word dividend which suggests the idea of distribution of profits.

The cooperative syndicates have only one kind of capital composed of fixed deposits, that is to say that they can be withdrawn only after a notice as provided for by by-law. The interest paid on such deposits is optional accordingly as there are profits, and it may be as a distribution of profits.

The return on capital of an agricultural cooperative or a cooperative syndicate, whether such capital consists of common or preferred stock, as such return is subject to the

existence of profits, must be considered as a distribution of profits and not as expenses.

Prejudice Arising from Exemption of Tax

The exemption from income tax now granted to cooperatives and mutual associations in accordance with section 4 G.I.P. and Q. operates alike to the detriment of private enterprise and as individuals.

Before the war, when the income tax rate was lower, the exemption granted to cooperatives could pass unnoticed. It is quite different now with the Excess Profits Tax Act which came into force in addition to a rise in income tax rates. The taxes the corporate enterprise and the ordinary taxpayer will have to pay will be all the higher in the future as the cooperatives which are exempted will develop at their expense. Heavily taxed enterprises which anticipate even heavier imposts before long, can hardly compete with cooperatives exempted from taxation. The advantage given to the cooperatives has already caused capitalist enterprises to fold up, also discourage the investment of capital and the creation of new enterprises which nevertheless would be so necessary to create employment for everybody after the war.

Conclusions

We have seen in the previous pages that:

1. The cooperative is an enterprise with a commercial function and, as such, should be subject to the same taxes affecting the ordinary commercial enterprise;
2. The cooperative is a moral body distinct from its members and the profits which are not distributed to them as patronage dividends are of the same nature as the undistributed profit of a company;
3. The patronage dividend does not come solely from the members. It contains directly and indirectly a portion of

the profits made on the non-members. It has also the character of a discount on the volume of business;

4. The exemption from taxes granted to the cooperatives and mutual associations increases unjustly the burden of taxes which the ordinary enterprise must bear;

5. The exemption of taxes enjoyed by the cooperatives puts them in a privileged position as compared with the ordinary enterprise.

Recommendations

For the reasons already mentioned La Chambre de Commerce du District de Montreal recommends:

That the cooperatives and mutual associations be subject to the Income Tax Act in the same manner as companies with partnership capital and that the Income Tax Act be so amended accordingly:

That all discount, reduction, patronage dividend, bonus or dividend paid in cash to customers of a commercial enterprise (cooperative or otherwise) at the pro rata of its volume of business and the profits accruing therefrom, be considered as expenses:

That as soon as circumstances will allow, the Income Tax Act be entirely revised in order to eliminate the injustices it contains.

By MR. BROSSARD:

Q. In the first part of your brief you demonstrate rather objectively what is generally understood, on the one hand, as advantages of the cooperative and, on the other hand, as its disadvantages? A. On the whole, we have pointed out in this brief some of the advantages which have been noticed during our inquiries by the representatives of cooperatives and some of the disadvantages which have been pointed out by the representatives of private enterprise.

Q. This statement of advantages and disadvantages is, may we say, but an illustration of the opinion entertained by the members of the committee charged with examination of the problem? A. The opinion of those who are sympathetic to cooperatives and, on the other hand, of those who are against them.

Q. However, we find nevertheless in the chapter outlining the drawbacks of cooperatives certain assertions concerning which you may perhaps enlighten us further. In the chapter about drawbacks, chapter (c) you state: "The cooperative, on the contrary, instead of expanding needs, confines itself with supplying the needs of its members". Has it not been shown in the light of experience outlined before the commission, according to proof thereof adduced in certain cases, that cooperatives do not limit themselves to transactions with their members but, quite to the contrary, are eager to do business with others who are not members, particularly in remote regions where a refusal to deal with non-members would amount to quasi-injustice? A. These are the drawbacks which have been pointed out by the members; it is not the opinion of the chamber. The cooperative is not anxious to expand the needs of its members or customers. It is not a question of discrimination between members or ordinary customers; it does not wish to develop business generally.

Q. As a policy or is it as a result of putting into practice cooperative principles? A. It is rather a matter of policy.

Q. At paragraph (d) of the same chapter, it is stated: "The cooperative particularly hampers small business. The small enterprise which must close down especially if it is situated in a small town or small village where its trade is with persons who become 'cooperators', is wiped out overnight".

Is this also an expression of opinion shared by members of that committee and, if so, is it based on facts which, to your knowledge, have been reported and which you might communicate to the commission? A. It is the opinion of certain persons who, not being necessarily members of that committee, were invited to attend in order to supply information. As far as information is concerned, there are cases which have been brought to the attention of this commission; there is the case of the small village where there was a cheese factory or butter factory. At a given time, it is decided to organize a cooperative. The cooperators come to the owner and say: "We are buying you out and you can go elsewhere". He has no choice, he must close down.

Q. Does this obligation on the part of this cheese-maker or butter-maker to close down result from the fact that the cooperative is not obliged to pay taxes on income or on excess profits, or is it not merely due to the fact that under pressure from the greater number he has to give up? A. In the past, it was due to that pressure but to-day, owing to the advantage there is in not paying taxes, the trend of that can change affairs and people, in view of the exemption from taxation, want to organize themselves into cooperatives.

Q. You claim that the fact of the cooperative being exempted from taxation induces the citizens of a village to organize themselves into a cooperative to the prejudice of the small dealers of the locality? A. Yes, that is my opinion.

Q. Is it based upon an experience of actual facts which you may quote before this commission? A. Evidently, it would be on facts which have been mentioned in the course of our inquiry, and, unfortunately, I could not quote them.

Q. Are you asking the commission to accept as absolutely sure these facts if you are unable to produce any more details

with reference to them? A. I am not asking the commission to accept them. I say that what we have pointed out as advantages and disadvantages, is the opinion of the very people who have expressed it and that the chambre de commerce could not take this opinion as its own.

Q. Similar remarks may be made regarding assertions contained in paragraph (e) where it is said: "A great many cooperative enterprises have, since 25 years, gone into bankruptcy or disappeared?" A. Yes, it is not the opinion of the chambre de commerce, it is the opinion expressed by certain persons who were consulted.

Q. Consulted by the special committee? A. Exactly.

Q. After all, the conclusions of your brief are based on opinions given by a few individuals consulted by the chambre de commerce? A. Exactly.

Q. Your conclusions are divided into two groups. On the one hand, you claim that cooperatives and mutuals -- nowhere mentioned in your brief -- should be made as much liable to the provisions of the Income Tax Act as stock companies, and, in the second place, that all discount, reduction, refund, bonus or dividend paid in cash to the clients of any commercial enterprise (cooperative or otherwise) in the ratio of its turnover and out of the profits resulting therefrom, should be considered as an expense. Do these two suggestions which you are submitting to the commission depend the one on the other? Are you pressing both of these suggestions at once or alternatively? A. Both of them; the one does not go without the other.

Q. You are therefore claiming that any deduction made by any enterprise whatsoever should not be considered for taxation on income purposes? A. Any discount allowed on the turnover, provided this discount is paid in cash.

Q. Have you any assertions in your brief which could entitle you to arrive at such second conclusion of your brief?

A. The whole section devoted to the patronage dividend covers that phase.

Q. Are you basing this on your allegation as to how cooperatives proceed in matters of patronage dividends? A. Absolutely.

Q. Are you aware that at the present time there are some commercial houses other than cooperatives which allow their customers what are called discounts based on volume of business? A. Absolutely; I have already pointed it out.

Q. Is it to your knowledge that, up till now, the Income Tax Department refuses to consider these discounts as expenses to be deducted for income tax purposes? A. I could not mention individual cases but it has been stated to me that in certain cases, such patronage dividends were not admitted for income tax purposes.

Q. Who has told you that? A. Members of the department.

Q. It follows therefore that such a policy has been adopted by the department in their refusal to accept these deductions for income tax purposes? A. Certain discounts are considered as expenses while some others are not.

Q. In your summing up, you claim that these discounts should be considered as expenses? A. Yes.

Q. Are you especially singling out these very discounts which at present are not admitted by the department? A. Yes, we hold that in the matter of discount or patronage dividend the cooperative and private enterprise should be considered absolutely on the same footing.

Q. Do you make a difference about the return to the shareholder and the return to the association member on their respective capital, on their respective share of capital? A. Do

you mean by shareholder or member, the member who owns a certain number of association shares in the capital of the cooperative?

A. In the case where a sum of interest or a dividend is paid on this partnership share, do you make a difference between this return on the share capital of the cooperative and on the capital of an ordinary company? A. Absolutely not.

Q. I see that, in your brief, you have not dealt with the social and educational viewpoint of cooperatives which many of them have emphasized before this commission? A. At the very beginning, we have conceded that whatever may be its social, economic or other advantages, that whatsoever advantages the cooperative may have, it remains true nevertheless that private enterprise can also have certain advantages. It has been shown that the cooperative was useful; ; it has not yet been shown that private enterprise is useless. It has been alleged that the cooperative supplied services to its members. I know, and everybody knows enterprises which render services to their members; a company selling cement tells its members how to use this cement. Even from a social standpoint, many companies have their own social centres for the benefit of their employees. These companies, for all that, are not exempted from taxes. The chambre does not dispute the fact that the cooperative is useful. Nevertheless, whatever may be such usefulness, it should not be exempted from taxation.

Q. You disregard the social services the cooperative may give and only give your attention to its purely economic features? A. We believe that the cooperative is above all, or at least is in the nature of a commercial operation and it is by virtue of this commercial operation that it deserves to be taxed.

Q. You therefore differ as to the social features being above all the prime factors of cooperatives? A. My opinion is that if one would go to any cooperators and would ask them: "Do you want to subscribe \$50 towards the development of the region?", there would be many cooperators who would not be interested. The object consists in getting products on the best terms possible and to dispose of their own at the best possible price. In my estimation, that is the prime object of the cooperative.

By MR. NADEAU:

Q. If cooperatives were taxed on their income, do you not anticipate disastrous situations which might hurt ordinary enterprises, particularly as to prices? A. I understand that, instead of granting a patronage dividend, the cooperative could sell at cost price. What would be the result? It may be more or less advantageous for the one or the other. At all events, there would be no window-dressing; one would know where he is at. Were cooperatives selling at lower prices than private enterprises, the latter could readjust these prices. At the present time, there are certain people who are under the impression that the cooperative will pay large patronage dividends, whilst this is only an illusion. I have pointed out that in Sweden cooperatives were selling at cost prices but that private enterprise could expand.

Q. In your brief, you have compared operation methods and you have insisted that from a commercial point of view these methods were similar. Did you make the same comparison in the course of your examination between financing plans, especially at the origin, of ordinary enterprises and those peculiar in the same circumstances to a cooperative enterprise. Do you think that in this matter of financing they are on equal footing? A. You mean from the standpoint of financing?

Q. I mean initial financing. A. No, obviously; I have indirectly pointed out this when I stated that the cooperative was rather an association of persons and that their investment was rather limited, and that, with capitalistic enterprises, the first steps taken were directed at putting together the capital funds required to create the enterprise.

Q. So, it may be granted that, at the very beginning, cooperatives encounter more difficulties in their financing than ordinary enterprises? A. The matter has its own advantages and disadvantages.

Q. You have also recommended that mutuals be taxed. What mutuals have you really in mind. A. In our statement, in our brief, we have rather taken up the theoretical point of view. On the whole, the same disadvantages and the same advantages may be applied to mutuals as to cooperatives.

Q. When you speak of mutuals, have you particularly in mind the farmers' mutuals? A. We have in mind mutuals which operate on the same principles as cooperatives.

Q. Which deal only with their own members? A. The cooperative deals with non-members.

Q. Are there any insurance mutuals which insure others than their own members? A. I could not say.

Q. You claim that cooperatives have considerably the better of ordinary enterprises owing to the fact that they can accumulate large reserves free from taxes. According to your experience, what is the situation at the present time, from the standpoint of reserve accumulation, with ordinary enterprise? Can they accumulate reserves? A. Actually, ordinary enterprises may in certain cases accumulate certain reserves. It remains nevertheless that at the present rate of assessment on income taking from 40 to 80 per cent of profits, the reserves which may be accumulated by private enterprises are necessarily

lower than reserves of cooperatives free from taxation. The ordinary enterprise which pays 80 per cent of its profits in taxation cuts down its reserves to that extent.

Q. Have your final conclusions been approved by the board of the chamber of commerce? A. Absolutely.

By MR. BROSSARD:

Q. At the very beginning of your submission, you say that the chambre de commerce of the province of Quebec which includes 82 chambres de commerce in the province and which represents approximately 18,000 business men of the province, approves your submission? A. Yes.

Q. In what manner did the chambre de commerce of the province of Quebec approve your submission? A. The executive of the chambre de commerce read our submission and wrote us a letter endorsing it.

Q. As a matter of fact, is not the chambre de commerce of Quebec submitting a brief to the commission? A. Yes.

Q. We may get the information from it, if necessary?
A. Yes.

By MR. PERRAULT:

Q. You said a moment ago that the summary had been published in the bulletin of the chambre de commerce of Montreal?
A. Yes.

Q. Did the summary published in the bulletin contain the conclusions appearing on page 18? A. I said the summary was that which was submitted to the commission.

Q. Did it include the conclusions appearing on page 18?
A. No, not exactly.

Q. Did it, among other things, include the first conclusion "That the cooperatives and mutual associations be subject to the Income Tax Act in the same manner as companies with partnership capital and that the Income Tax Act be amended accordingly"? A. I think so.

Q. In the last paragraph of your recommendations, you say: "That as soon as circumstances will allow, the Income Tax Act be entirely revised in order to eliminate the injustices it contains". Are we to understand, by injustices, that you mean that the cooperatives and mutual societies are exempted from the provisions of the act? A. Not necessarily, but that may be one.

Q. Of the injustices? A. Yes.

Q. I understand that your bulletin has been sent to the 3,500 members, or thereabouts, of the chambre de commerce?
A. Absolutely.

By MR. LATOUR:

Q. When a question was asked as to.....

Mr. PARKER (text): I do not wish to interrupt, but I would like the gentleman to put in the record in what capacity he is cross-examining this witness so that it will be clear.

The CHAIRMAN: Whom do you represent?

Mr. LATOUR: I am the secretary of the chambre de commerce.

By MR. LATOUR (Translation):

Q. When a question was asked as to the return on capital, you said that you considered the return on capital stock as the capital of a cooperative. Do you mean by that that you compare dividends to the patronage dividend? We know that presently dividends are taxable. Does the chambre de commerce infer that the patronage dividend should be taxable? A. When I said that I compare the capital dividends of the cooperative to the dividend paid on the capital of an ordinary company, I do not refer in any way to the patronage dividend. I mean the dividend paid on the shares of a cooperative and I say it is of the same nature as the dividend paid on the capital stock of an ordinary company.

Mr. PARKER: That, in a sense, completes the brief with

the following exception: it will be remembered that yesterday we called the Insurance Brokers' Association and it was directed that the brief be filed.

The CHAIRMAN: It might be called again now.

Mr. PARKER: I understand that the representative is present.

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J. C. d'AUTEUIL

Secretary, Insurance Brokers
Association of the province
of Quebec, being duly sworn,
testified as follows:

BY MR. PARKER:

Q. You are the secretary of the Insurance Brokers
Association of the province of Quebec? A. Yes, sir.

Q. How long have you been acting as secretary ?
A. Twenty years.

Q. Just what is this association? What does the
membership consist of? A. The members consist first of all
of agents entirely engaged in the insurance business.

Q. That is, fire insurance? A. Other than life;
they must be exclusively engaged in the insurance business
other than life. If they are real estate agents or have
any other part time occupation they cannot be members of
our association.

Q. Their entire time must be devoted to it? A. Their
entire time. They must go through an examination to qualify
for certificate as a chartered member. It is the only
association of this kind in the dominion.

Q. It represents ordinary fire insurance business
throughout the province? A. Yes, throughout the province --
seventeen districts we have. Montreal of course is the
largest.

Q. And this one takes in the whole province? A. The
whole province.

Q. About how many members would there be? A. We
have 602 licensed agents -- 601.

Q. Who prepared this document? A. I did, with the
help of other members of our executive committee.

Q. How many on your executive? A. We are nine, but there were six present at the meeting. One of them was sick and the other was out of town.

Q. Has this document been submitted to the entire membership of six hundred? A. No, because the executive has full authority to act on these questions.

Q. How did they acquire the authority? A. By resolution of the Association at the annual meeting.

Q. When was that held? A. That was held in June.

Q. Was it in anticipation of some such inquiry as this -- were you instructed? A. In anticipation of that. In respect to matters affecting the agents directly we are called upon to call a special meeting or send a circular letter, and in any other matters cropping up during the year that affects the agents, we have authority to act.

Q. But this question of taxation was not submitted as such at the annual meeting? A. During the annual meeting, no.

Q. Was this brief after it was prepared sent to them for approval? A. It will be sent to them. It is ready at the present time and probably will be going out in the next few days.

Q. It has not been submitted up to date? A. No.

Q. So that apart from the general authority that you have to speak for the association, this represents the views of the six members of the executive committee?

A. Yes.

Q. Very good; will you read it, please?

A. If you care to consider it as read, I don't mind.

MR. PARKER: Well, if there is no one present who wishes to hear the contents of it, that will be quite all right.

THE CHAIRMAN: It is very much along the lines of other submissions of this kind?

THE WITNESS: I believe so, although I only saw one or two of the others. One of them as a matter of fact came in after we had prepared ours. We wanted to touch only on general principles.

BY MR. PARKER:

Q. You have no concrete suggestion as to what the changes if any should be made? A. No.

Q. In taxation? A. No. The only suggestion that we have is that we feel that a certain number of inequities exist at the present time, mostly due to the law which gives permission to certain organizations to act, which in our opinion might be revised or retouched with the suggestions of the commission.

Q. As I understand it you have not gone into the details of the various acts; you have no definite suggestions to place before the Commission as to what changes should be made? A. No, sir.

Q. You are leaving that entirely to the Commission?

A. To the Commission.

THE CHAIRMAN: I think we can take the brief as read, then, Mr. d'Auteuil.

THE WITNESS: Thank you, your honour.

Submission to the Royal Commission Inquiring into the Application of Income and profits Taxes to Co-Operatives (including Mutual and Reciprocal Organizations Transacting Insurance).

"We, the Insurance Brokers Association of the Province of Quebec, a body chartered under the laws of the province of Quebec, and being the only agency association within that province, with headquarters at Montreal, and seventeen

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organized districts throughout the territory, respectfully make the following submissions on the question of Income and Profit Taxes in respect of the application of the laws to Stock Insurance Companies on the one hand, and mutual and reciprocal insurance organizations on the other hand.

"1. We, on behalf of our members, as taxpayers protest that the present inequalities of taxation existing between the two groups, is inimical to public interest, is unjust and discriminative.

"2. We, as taxpayers submit that basically the taxation laws of the Dominion should be directed toward providing means of security to every individual and every corporation, and every group of individual within the Dominion, and that taxation laws should be framed, and applied, in a manner which would ensure equality of taxation on all parties.

"3. That the application of present laws, eased the taxation burden upon mutuals and reciprocals, and creates hardship on the companies of stock formation, in as much as, indirectly, it places the said mutuals and reciprocals in a preferred position in matters of competition for business, and the cost of organization operation.

"4. We submit, that this differentiation in taxation has the effect of penalizing those who venture capital investment in enterprise, and are subjected to taxations on the earnings of such enterprise.

"5. We submit that if, in organizations of a stock character, moneys transferred to reserves for the security of the public are taxable, and that if this principle is sound, then moneys transferred from the operations of mutual and reciprocal organizations which are transferred to reserves for the protection of mutual and reciprocal policy holders, should also be taxed, and on the same basis as that

applying to stock organizations.

"6. We submit, as taxpayers, that under the present application of the Tax Acts, the principles of mutual and reciprocal organizations (being of a wholly cooperative character) are being encouraged indirectly by the Dominion government to the disadvantage of private enterprise.

"7. We believe that the essential freedom of competition and the extension of private enterprise hitherto enjoyed, are basically vital to this country's future prosperity, but that within this freedom of competition and private enterprise, all parties without exception should bear an equal burden of taxation and this means bear an equal ratable proportion of the defence and administration of the country.

"8. We are strongly of the opinion that the tax laws should be drawn, and applied, in such a manner as will ensure an equal ratio of taxation on every single individual, every group of individuals, and every corporate body who transacts business within the dominion, and who, from that business, derives profit, or surplus or reserve, or whatever term may be applied to the excess of income over expenditure.

Respectfully submitted,

The Insurance Brokers Association
of the Province of Quebec (Incorporated)
465 St. John Street, Montreal.

President: Arthur McBean,

Secretary: J. C. d'Auteuil."

MR. PARKER: There was another one also called yesterday, the Quebec Credit Union League Limited. I believe there is no one present representing that organization. I believe it is only in the shape of a letter; it may be

that someone will appear on behalf of the larger group at Quebec. Perhaps for the moment the best we can do is to take it as read and have it form part of the official record.

Quebec Credit Union League Limited

"To the Royal Commission on Cooperatives:

"We, the Quebec Credit Union League Limited, respectfully submit the following brief for your consideration:-

"We represent eight English speaking credit unions in this province with approximately 1,500 members.

"We heartily endorse the brief submitted to you by the British Columbia Credit Union League. Our principles and rules are similar to those outlined in that brief.

"We believe the essential difference between credit unions and private business should be stressed. Private business exists for the purpose of making a profit, while credit unions exist in order to be of service to their members. All transactions of credit unions are entered into with a view to the best interests of the members, both collectively and individually.

"In granting a loan, the criterion is, not how big a loan a member can be persuaded to take and consequently how much interest the credit union will gain, but rather how the credit union can best serve the borrower. If a member is better off with a smaller loan, then he would be persuaded to take the smaller amount, even if there were no question of his credit rating.

"A credit union is not a charitable institution and it must insist upon the ultimate repayment of all loans, but if a borrower falls into financial difficulties through, say, illness or unemployment, the credit union may and frequently does waive payment of the interest on the loan.

"The interest received by a credit union is used to provide a reasonable dividend on the savings of the members and any excess remaining after payment of expenses (including insurance on loans) and provision for an adequate reserve is refunded to the borrowers as a percentage of the interest they have paid. If it is found that a certain interest rate regularly provides more than sufficient to pay a reasonable dividend, the interest rate is usually reduced. The rates charged in different credit unions vary from two-thirds of one per cent to one per cent per month on the unpaid balance of the loan. Dividends paid to members on their savings are usually at the rate of three per cent per annum and in no case have they been higher than four per cent.

"In conclusion, we consider there are sufficient differences between credit unions and private business to support our contention that credit unions should be exempt from taxation.

"Quebec Credit Union League, Ltd.

Montreal,
February 14, 1945."

M. N. Larsen, Inspector.

MR. PARKER: There is a brief which I am informed came to the Registrar's office unaccompanied by any letter or by any intimation of where it is desired to have it presented. Unless the Registrar can tell us that he has recently received further information with regard to it, I do not know what more we can do than to place it on our files. If someone should appear in Quebec in support of it, we can deal with it then.

THE CHAIRMAN: Under what name was it submitted?

MR. CHAPDELAIN: Le Syndicat d'Initiatives rurales - Societe regie par la loi des Syndicats Cooperatifs de

Quebec. There is a memorandum presented by Leroy Poulin, agronome.

MR. PARKER: There is no one present representing this organization. Is it the pleasure of the Commission that this be filed with the Montreal briefs, or that it be carried forward to Quebec for further consideration?

THE CHAIRMAN: Carried to Quebec, I would think.

MR. PARKER: Notice of intention to file a brief was received from the Quebec section of the C.C.F., whatever that may mean, but it has not been followed up by any further action.

THE CHAIRMAN: Then their notice is noted, and default of filing brief.

MR. PARKER: So far as I know, that concludes the business before the Commission at this session.

THE CHAIRMAN: Then we will adjourn to meet at Quebec on Monday next.

The Commission thereupon adjourned to meet at Quebec on Monday, February 26, 1945, at 10.30 a.m.

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